# President Bush's 2004 Budget

## A Brief Overview

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(1) In this document, all dollar and percentage amounts relating to the President's budget and to OMB Baseline estimates have been taken from the President's 2004 budget document. These figures are based on the President's economic forecast and technical estimating procedures and have not been reestimated by the Congressional Budget Office.

(2) "BEA" refers to the Budget Enforcement Act, Title XIII of the Omnibus Budget Reconciliation Act of 1990. "BBA" refers to the Bipartisan Budget Agreement of 1997.

(3) Unless otherwise stated, all years in this report are fiscal years.

(4) In the case of all tables: (a) Details may not add to totals due to rounding; (b) "N/A" means not available or not applicable; and (c) "(*)" means less than $0.5 billion, less than $500,00 or less than one-half percent.

# OVERVIEW

**THE PRESIDENT'S FY 2004 BUDGET**
**Bold Steps to Address Great Challenges**

President George W. Bush in his State of the Union address spoke of the bold steps our nation must take to meet the many challenges we face: to create and sustain economic growth in the aftermath of a recession, a dramatic stock market decline, and corporate scandal; to win the ongoing war against terrorism; to improve and strengthen our homeland defense; and to provide high-quality affordable health care for all Americans. The President's budget request translates those bold steps into the reality of dollars and cents.

- **Total spending** will grow from $2.140 trillion in 2003 to $2.229 trillion in 2004, an increase of $89 billion or 4.2 percent.

- **Total revenues** will grow from $1.836 trillion in 2003 to $1.922 trillion in 2004, an increase of $86 billion or 4.7 percent. (These figures include an "adjustment for revenue uncertainty" of -$25 billion in 2003 and -$15 billion 2004).

- The projected **budget deficit** of $304 billion in 2003 (2.8 percent of GDP) will grow to $307 billion in 2004 (2.7 percent of GDP), before eventually falling to $190 billion by 2008 (1.4 percent of GDP). Deficits in every year are well below historical highs of the 1980's (6 percent of GDP in 1983) and the 1990's (4.7 percent of GDP in 1992).

- **Publicly-held debt** will equal $3.878 trillion by the end of 2003 (36.1 percent of GDP) and $4.166 trillion by the end of 2004 (36.9 percent of GDP), eventually reaching $5.003 trillion by the end of 2008 (36.4 percent of GDP).

- **Total discretionary spending** will grow from $751.8 billion in 2003 to $782.2 billion in 2004, an increase of $30 billion or 4 percent, no faster than the average family's income will grow.

    - **Defense discretionary spending** will grow from $382.2 billion in 2003 to $399.2 billion in 2004, an increase of $17 billion or 4.4 percent.

    - **Homeland security discretionary spending** will grow from $26.7 billion in 2003 to $28.2 billion 2004, an increase of $1.5 billion or 5.5 percent.

    - **All other discretionary spending** will grow from $342.9 billion in 2003 to $354.8 billion in 2004, an increase of $11.9 billion or 3.5 percent.

**Balancing the Budget**

- The President is committed to balancing the budget as fast as possible and consistent with national priorities, by creating and sustaining economic growth and holding the line on spending. The current budget deficits, which would exist even if the President and Congress never passed their bipartisan tax plan in 2001, would fall to 1.4 percent of GDP by 2008 under the President's proposals.

**Creating and Sustaining Economic Growth**

- The President's economic growth plan provides $31 billion of tax relief in 2003, $360 billion over the next five years, and $615 billion over the next decade to accelerate marginal income tax rate cuts, marriage penalty relief, and the increase in the child tax credit; eliminate the double-taxation of dividends; and increase small business expensing limits.

- The economic growth plan also increases spending for the refundable portion of the child tax credit and personal re-employment accounts by $2 billion in 2003, $20.5 billion over the next five years, and $27.2 billion over the next decade.

- The budget includes a major new initiative to encourage savings and to simplify the complicated and duplicative rules governing tax-favored savings vehicles. The creation of Lifetime Savings Accounts, Retirement Savings Accounts, and Employer Retirement Savings Accounts would raise revenues by $14.8 billion over the next five years and $2 billion over the next decade.

- The President proposes making most elements of the bipartisan tax relief enacted in 2001 permanent, providing $5.8 billion in tax relief over the next five years and $498 billion over the next decade.

**Strengthening & Improving Medicare**

- The President proposes to invest $400 billion over 10 years to strengthen and improve Medicare with prescription drug coverage, give all beneficiaries a choice of health plans, provide catastrophic coverage, provide assistance to low-income beneficiaries, and improve quality of care.

- The President will insist that any changes to Medicare, which already labors under a $13 trillion unfunded liability, be affordable in the future.

**Winning the War on Terrorism**

- The President's $399.2 billion defense budget will enable our military to continue waging an aggressive and global war on terrorism, but does not include any spending specifically for military action in Iraq, since no decision has been made to initiate such action, and those costs cannot be estimated under such uncertainty.
- The budget provides over $9 billion to begin the deployment of defenses against long-range ballistic missile threats, a $1.4 billion increase over the 2003 request.

**Securing the Homeland**

- The President's budget provides a 7.6 percent increase in total homeland security spending to secure the nation's borders, train and equip first responders, protect critical infrastructure, guard against bio-terrorism, and improve intelligence analysis and coordination.

- The budget provides $1.1 billion for the Secret Service (a 12 percent increase), $5.6 billion for the Coast Guard (a 9 percent increase), $3.5 billion for first responders, and $4.8 billion for the Transportation Security Administration (a $526 million reduction due to completion of TSA rollout activities).

**Leaving No Child Behind**

- The President will provide $53.1 billion for education programs, an increase of $2.8 billion or 5.6 percent over 2003, the largest dollar increase for any domestic agency.

- The budget provides $12.4 billion for Title 1 Grants to Local Education Agencies (a $1 billion increase), $9.5 billion for Special Education Grants to States (a $1 billion increase), and $12.7 billion for Pell Grants (a $1.9 billion increase).

- The budget proposes to terminate 45 education programs with duplicative missions or that were found to be ineffective.

**Helping the Uninsured**

- The President proposes to modernize Medicaid by allotting funding directly to the states, incentivizing them to revolutionize health care for the poor as they have with welfare and children's health insurance. An additional $8.9 billion would be available over the next five years help states make the transition.

- The budget provides for a refundable health insurance tax credit of up to $3,000 per family to make health insurance more affordable for uninsured low- and middle-income Americans. The $89 billion proposal would reduce the number of persons who go without insurance by 4 million.

**Managing & Budgeting for Results**

- The President continues and expands his commitment to make government more results-oriented with the Program Assessment Rating Tool, or PART.

- The budget rates 234 federal programs (approximately 20 percent of the federal government) as either effective, moderately affective, adequate, ineffective, or "results not demonstrated". By the end of 2006, all federal programs will be rated under PART.
- In the President's budget, programs rated as "effective" received an average funding increase of 6 percent. Programs rated "ineffective" received an average funding increase of less than 1 percent.

**Other Major Initiatives**

- **AIDS Relief:** $450 million in 2004, and an additional $10 billion over five years, to slow the global spread of HIV/AIDS and deliver treatment to millions of infected people in developing countries.

- **Veterans:** $28.1 billion for the Department of Veterans Affairs, a $2.7 billion increase or 10.6 percent over 2003, the largest annual increase for the VA ever requested by a President.

- **Foreign Aid:** $1.3 billion for a new initiative to provide assistance to countries that rule justly, invest in their people, and encourage economic freedom.

- **Corporate Accountability:** $842 million for the Securities and Exchange Commission, a 48 percent increase, the largest in the agency's history.

- **State & Local Governments**: The budget provides $398.8 billion in total aid to state and local governments for 2004, a 4 percent increase over 2003. Since President Bush took office, this aid has grown from 15.9 percent of total outlays in 2000 to 17.9 percent in 2004, or from 2.9 percent of GDP in 2000 to 3.5 percent of GDP in 2004.

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## NOTE ON COMPARISONS TO FY 2003

The still-unresolved status of appropriations for the current fiscal year (2003) presents unusual analytical challenges for assessing how the President's 2004 budget request for most discretionary accounts compares to levels for the previous year (or to the baseline).

Normally, by the time the President releases his budget in February, all appropriation bills for the current year are already enacted, and one can evaluate how the request for the next year compares to the current year. Also, the discretionary baseline is built off of the enacted appropriation levels for the current year, projecting the same real levels of discretionary spending into the future with adjustments only for inflation (as required by law).

Eleven of thirteen regular appropriation bills for 2003 have not yet been enacted, representing just over half of the approximately $751 billion that the President and the Congress have agreed to provide in total for 2003. Only the Defense and Military Construction appropriation bills have been enacted. Most programs are still operating under a continuing resolution (approximately the 2002 enacted levels, with adjustments for one-time spending items and balances), which, if allowed to remain in place for all of 2003, would yield total discretionary spending of about $738 billion. The conference on the 2003 Omnibus appropriations is now underway.

In the 2004 budget documents, OMB has chosen to display for 2003 the amount the President requested last year for each program that has not yet had a full-year appropriation enacted (i.e., all accounts that are not in either the Defense or Military Construction bills). Therefore, the President's budget does not attempt to compare the 2004 request either to the continuing resolution levels or a possible conference agreement on the Omnibus appropriations bill. (In contrast, note that for these same programs, OMB's baseline for 2003 starts not with the President's request from last year, but with the continuing resolution level. Therefore, comparisons of the President's 2004 request to the baseline for these accounts will, in most cases, reflect misleadingly large differences compared to the differences that will ultimately result if and when full-year appropriations are enacted.)

Of necessity, this analysis relies only on the information provided in the President's budget documents. CBO's reestimate of the President's request will not be available for about a month, and by then it might be able to reflect a comparison of the 2004 request to 2003 enacted appropriations for all discretionary programs.

If the Omnibus appropriations conference agreement is approved later this month, comparisons to the President's 2004 budget request will differ from the comparison presented in this document to the extent that enacted levels for 2003 differ from the President's request last year.

**Table 1. PRESIDENT'S BUDGET FOR FY 2004**
**($, Billions)**

| | 2001 Actual | 2002 Actual | 2003 Estimate | 2004 Request | 2005 | 2006 | 2007 | 2008 | 2004-2008 Total |
|---|---|---|---|---|---|---|---|---|---|
| Total Spending | 1864 | 2011 | 2140 | 2229 | 2343 | 2464 | 2576 | 2711 | 12323 |
| % change/average annual growth | | 7.9% | 6.4% | 4.2% | 5.1% | 5.1% | 4.6% | 5.2% | 5.8% |
| Total Revenues | 1991 | 1853 | 1836 | 1922 | 2135 | 2263 | 2398 | 2521 | 11239 |
| % change/average annual growth | | -6.9% | -0.9% | 4.7% | 11.1% | 6.0% | 6.0% | 5.1% | 2.3% |
| Total Deficit | 127 | -158 | -304 | -307 | -208 | -201 | -178 | -190 | -1084 |
| On-budget deficit | -36 | -317 | -468 | -482 | -407 | -412 | -406 | -433 | -2140 |
| Off-budget surplus | 163 | 160 | 163 | 175 | 199 | 211 | 228 | 243 | 1056 |
| Gross Federal Debt | 5770 | 6198 | 6752 | 7321 | 7837 | 8353 | 8858 | 9388 | 41757 |
| Debt Held by the Public | 3320 | 3540 | 3878 | 4166 | 4387 | 4603 | 4797 | 5003 | 22955 |
| Gross Domestic Product | 10151 | 10337 | 10757 | 11303 | 11884 | 12483 | 13104 | 13752 | 62525 |
| **(as a % of Gross Domestic Product)** | | | | | | | | | |
| Total Spending | 18.4% | 19.5% | 19.9% | 19.7% | 19.7% | 19.7% | 19.7% | 19.7% | 19.7% |
| Total Revenues | 19.6% | 17.9% | 17.1% | 17.0% | 18.0% | 18.1% | 18.3% | 18.3% | 18.0% |
| Total Deficit | 1.3% | -1.5% | -2.8% | -2.7% | -1.8% | -1.6% | -1.4% | -1.4% | -1.7% |
| Social Security | -0.4% | -3.1% | -4.3% | -4.3% | -3.4% | -3.3% | -3.1% | -3.1% | -3.4% |
| Rest of Government | 1.6% | 1.5% | 1.5% | 1.5% | 1.7% | 1.7% | 1.7% | 1.8% | 1.7% |
| Gross Federal Debt | 56.8% | 60.0% | 62.8% | 64.8% | 66.0% | 66.9% | 67.6% | 68.3% | 66.8% |
| Debt Held by the Public | 32.7% | 34.3% | 36.1% | 36.9% | 36.9% | 36.9% | 36.6% | 36.4% | 36.7% |

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

## Table 2: PRESIDENT'S BUDGET BY MAJOR SPENDING CATEGORY

**($, Billions)**

| | 2001 Actual | 2002 Actual | 2003 Estimate | 2004 | 2005 | 2006 | 2007 | 2008 | 2004-2008 | % change 2003-2004 | Average Annual Growth 2004 - 2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Discretionary Outlays | 649 | 734 | 791 | 819 | 850 | 870 | 891 | 926 | 4356 | 3.5% | 3.1% |
| Mandatory Outlays | | | | | | | | | | | |
| Social Security Outlays | 429 | 452 | 474 | 493 | 512 | 533 | 559 | 587 | 2684 | 3.9% | 4.5% |
| Medicare Outlays | 214 | 228 | 241 | 255 | 272 | 301 | 323 | 345 | 1497 | 5.9% | 7.9% |
| Medicaid and SCHIP Outlays | 133 | 151 | 167 | 185 | 199 | 217 | 234 | 254 | 1089 | 10.7% | 8.2% |
| Other Outlays | 232 | 274 | 305 | 301 | 307 | 319 | 329 | 344 | 1599 | -1.3% | 3.4% |
| Total Mandatory Outlays | 1008 | 1106 | 1188 | 1234 | 1289 | 1369 | 1445 | 1531 | 6868 | 3.9% | 5.5% |
| Net Interest | 206 | 171 | 161 | 176 | 204 | 225 | 240 | 254 | 1099 | 9.3% | 9.6% |
| Total Outlays | 1864 | 2011 | 2140 | 2229 | 2343 | 2464 | 2576 | 2711 | 12323 | 4.2% | 5.0% |
| Total Revenues | 1991 | 1853 | 1836 | 1922 | 2135 | 2263 | 2398 | 2521 | 11239 | 4.7% | 7.0% |
| Surplus | 127 | -158 | -304 | -307 | -208 | -201 | -178 | -190 | -1084 | | |

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

NOTE: Discretionary budget authority in FY 2003 of $751.8 billion is adjusted for the Presidentially approved spending level. This level includes the House passed budget resolution level of $750.1 billion, adjusted for mass transit budget authority of $1.4 billion and almost $300 million in unused offsets in agriculture programs.

## Table 3: IMPACT OF BUDGET POLICY ON THE SURPLUS
**($, Billions)**

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2004-2008 |
|---|---|---|---|---|---|---|---|
| Current Baseline Surplus/Deficit | -264 | -158 | -40 | 5 | 29 | 51 | -114 |
| Budget Proposals: | | | | | | | |
| Discretionary | | | | | | | |
| Defense | * | -7 | -16 | -22 | -26 | -40 | -111 |
| Nondefense | -6 | -17 | -20 | -23 | -23 | -24 | -108 |
| Subtotal, Discretionary | -6 | -24 | -37 | -45 | -49 | -64 | -218 |
| Mandatory | | | | | | | |
| Strengthening Medicare | 0 | -6 | -10 | -33 | -38 | -43 | -130 |
| Economic Growth Package | -2 | -3 | -5 | -4 | -4 | -4 | -20 |
| Health tax credits (refundable portion) | 0 | 0 | -4 | -8 | -9 | -10 | -31 |
| Education tax credit (refundable portion) | * | -1 | -1 | -1 | -1 | -3 | -6 |
| Medicaid/SCHIP | * | -3 | -1 | -2 | -1 | -2 | -10 |
| Welfare Reform | * | * | * | -1 | * | * | -2 |
| Postal Service Pension Proposal | 0 | 0 | 0 | -3 | -3 | -3 | -9 |
| Reform unemployment insurance administrative financing | 0 | 0 | 0 | 0 | -1 | -2 | -2 |
| Other mandatory proposals | * | * | 1 | * | * | 2 | 5 |
| Subtotal, Mandatory | -2 | -13 | -20 | -51 | -58 | -65 | -206 |
| Revenues | | | | | | | |
| Economic growth package | -31 | -111 | -83 | -64 | -51 | -50 | -359 |
| Extension of expiring tax provisions | -1 | -5 | -14 | -18 | -7 | -8 | -53 |
| Incentives for charitable giving | * | -2 | -2 | -2 | -2 | -2 | -9 |
| Health tax credits | 0 | -1 | -3 | -4 | -4 | -5 | -17 |
| Establish Individual Development Accounts | 0 | 0 | -0 | -0 | -0 | -0 | -1 |
| Expand tax-free savings opportunities | 1 | 11 | 5 | 2 | -1 | -2 | 15 |
| Increase energy production and promote energy conservation | * | -1 | -1 | -1 | -1 | -1 | -5 |
| Reform unemployment insurance administrative financing | 0 | 0 | -1 | -1 | -3 | -2 | -8 |
| Other revenue proposals | * | * | -1 | * | -1 | -1 | -3 |
| Subtotal, Revenues | -31 | -109 | -100 | -89 | -71 | -72 | -441 |
| Related debt service | * | -4 | -11 | -20 | -30 | -40 | -105 |
| Subtotal, budget proposals | -40 | -149 | -168 | -205 | -207 | -241 | -970 |
| Budget Deficit | -304 | -307 | -208 | -201 | -178 | -190 | -1084 |

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

*Less than $500 Million

**Table 4: COMPARISON OF DISCRETIONARY RESOURCES IN THE PRESIDENT'S FY 2004 BUDGET**
**(Budget authority and obligation limitations, in billions of dollars)**

| | 2002 Actual | 2003 '03 Request* | 2004 Policy | 2003-2004 Difference | 2003-2004 % Change |
|---|---|---|---|---|---|
| TOTAL BA | 735 | 752 | 782 | 30 | 4% |
| Less Defense | 361 | 382 | 399 | 17 | 4% |
| Less Homeland Security | 24 | 27 | 28 | 1 | 6% |
| **TOTAL, Other Domestic Discretionary BA** | **350** | **343** | **355** | **12** | **3%** |
| Plus transportation obligation limitations | 41 | 37 | 40 | 2 | 6% |
| **TOTAL, Other Domestic Discretionary Budget Resources** | **391** | **380** | **394** | **14** | **4%** |

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

NOTE: Discretionary budget authority in FY 2003 of $751.8 billion is adjusted for the Presidentially approved spending level. This level includes the House passed budget resolution level of $750.1 billion, adjusted for mass transit budget authority of $1.4 billion and almost $300 million in unused offsets in agriculture programs.

## TABLE 5: DISCRETIONARY BUDGET AUTHORITY BY APPROPRIATIONS SUBCOMMITTEE

**($, Millions)**

| **Appropriations Subcommittee** | **2001 Actual** | **2002 Actual** | **2003 '03 Request** | **2004 Proposal** |
|---|---|---|---|---|
| Agriculture and Rural Development | 16,442 | 17,087 | 17,037 | 16,937 |
| %change | | 3.9% | -0.3% | -0.6% |
| Commerce, Justice, State, and the Judiciary | 39,436 | 39,100 | 37,793 | 38,352 |
| %change | | -0.9% | -3.3% | 1.5% |
| Defense | 307,628 | 333,891 | 354,302 | 371,023 |
| %change | | 8.5% | 6.1% | 4.7% |
| District of Columbia | 469 | 612 | 379 | 419 |
| %change | | 30.5% | -38.1% | 10.6% |
| Energy and Water Development | 24,201 | 25,484 | 25,362 | 26,765 |
| %change | | 5.3% | -0.5% | 5.5% |
| Foreign Operations | 15,705 | 16,128 | 16,476 | 18,818 |
| %change | | 2.7% | 2.2% | 14.2% |
| Interior and Related Agencies | 19,053 | 19,619 | 19,153 | 19,674 |
| %change | | 3.0% | -2.4% | 2.7% |
| Labor, Health and Human Services, and Education | 110,057 | 126,530 | 130,516 | 135,498 |
| %change | | 15.0% | 3.2% | 3.8% |
| Legislative | 3,088 | 3,281 | 3,438 | 3,791 |
| %change | | 6.3% | 4.8% | 10.3% |
| Military Construction | 9,106 | 10,679 | 10,492 | 9,034 |
| %change | | 17.3% | -1.8% | -13.9% |
| Transportation and Related Agencies | 18,968 | 15,645 | 12,784 | 13,533 |
| %change | | -17.5% | -18.3% | 5.9% |
| Treasury, and General Government | 16,426 | 12,838 | 13,250 | 13,805 |
| %change | | -21.8% | 3.2% | 4.2% |
| Veterans Affairs, Housing and Urban Development | 83,254 | 84,106 | 85,050 | 89,050 |
| %change | | 1.0% | 1.1% | 4.7% |
| Department of Homeland Security | | 29,923 | 25,355 | 26,697 |
| % change | | | -15.3% | 5.3% |
| Allowances | | -227 | 438 | -1177 |
| **TOTAL DISCRETIONARY** | **663,833** | **734,696** | **751,825** | **782,219** |
| | | 10.7% | 2.3% | 4.0% |
| **DEFENSE DISCRETIONARY** | **331,989** | **360,816** | **382,225** | **399,181** |
| % change | | 8.7% | 5.9% | 4.4% |
| **NONDEFENSE DISCRETIONARY** | **331,844** | **373,880** | **369,600** | **383,038** |
| % change | | 12.7% | -1.1% | 3.6% |

Source: Senate Budget Committee Republican Staff, Office of Management and Budget

Memo:

| | | | | |
|---|---|---|---|---|
| Transportation Obligation Limitations | 38,349 | 41,084 | 37,359 | 39,612 |
| % change | | 7.1% | -9.1% | 6.0% |

NOTE: Discretionary budget authority in FY 2003 of $751.8 billion is adjusted for the Presidentially approved spending level. This level includes the House passed budget resolution level of $750.1 billion, adjusted for mass transit budget authority of $1.4 billion and almost $300 million in unused offsets in agriculture programs.

## Table 6: HOMELAND SECURITY BUDGET AUTHORITY BY AGENCY
**($, Millions)**

| | 2002 Enacted | 2002 Supplemental | 2002 Total | 2003 | 2004 | % change 2002-2003 | % change 2003-2004 |
|---|---|---|---|---|---|---|---|
| Agriculture | 230 | 322 | 552 | 396 | 390 | -28.3% | -1.5% |
| *Agriculture Quarantine and Inspections* | *41* | *0* | *41* | *152* | *108* | | |
| Commerce | 99 | 19 | 118 | 133 | 153 | 12.7% | 15.0% |
| Department of Defense, Military | 4,423 | 733 | 5,156 | 8,863 | 6,714 | 71.9% | -24.2% |
| Energy | 1,067 | 153 | 1,220 | 1,164 | 1,361 | -4.6% | 16.9% |
| Health and Human Services | 433 | 1,480 | 1,913 | 3,987 | 3,776 | 108.4% | -5.3% |
| Homeland Security | 11,398 | 5,982 | 17,380 | 22,035 | 23,890 | 26.8% | 8.4% |
| *Airport Security Fees* | *1,128* | *0* | *1,128* | *2,529* | *2,488* | | |
| *Customs and Border Protection* | *945* | *0* | *945* | *1,072* | *1,076* | | |
| *Immigration and Customs Enforcement* | *267* | *0* | *267* | *355* | *300* | | |
| *Coast Guard Retirement Payments* | *366* | *0* | *366* | *388* | *446* | | |
| *Vaccine Proposal* | *0* | *0* | *0* | *0* | *890* | | |
| *Other Fee Funded Activities* | *34* | *0* | *34* | *20* | *18* | | |
| *Subtotal, Mandatory and Fee Funded Activities* | *2,740* | *0* | *2,740* | *4,364* | *5,218* | | |
| Justice | 1,019 | 1,125 | 2,144 | 1,947 | 2,290 | -9.2% | 17.6% |
| State | 438 | 39 | 477 | 658 | 811 | 37.9% | 23.3% |
| *Visa Processing Fees* | *426* | *0* | *426* | *617* | *758* | | |
| Treasury | 84 | 32 | 116 | 80 | 91 | -31.0% | 13.8% |
| Transportation | 635 | 785 | 1,420 | 258 | 284 | | |
| *Mass Transit Formula Grants Fees and Mandatories* | *26* | *0* | *26* | *26* | *37* | | |
| Veterans Affairs | 47 | 2 | 49 | 132 | 145 | 169.4% | 9.8% |
| Corps of Engineers | 0 | 139 | 139 | 65 | 104 | -53.2% | 60.0% |
| Environmental Protection Agency | 13 | 174 | 187 | 134 | 124 | -28.3% | -7.5% |
| Social Security Administration | 113 | 8 | 121 | 132 | 147 | 9.1% | 11.4% |
| *Physical and Computer Security Fees* | *121* | *0* | *121* | *132* | *143* | | |
| National Aeronautics and Space Administration | 114 | 109 | 223 | 164 | 170 | -26.5% | 3.7% |
| National Science Foundation | 240 | 19 | 259 | 264 | 307 | 1.9% | 16.3% |
| Postal Service | 0 | 587 | 587 | 0 | 0 | | |
| Other Agencies | 267 | 556 | 823 | 623 | 590 | -24.3% | -5.3% |
| *GSA Physical and Computer Security Fees* | *93* | *0* | *93* | *82* | *90* | | |
| *Other Mandatory Homeland Security Spending* | *37* | *0* | *37* | *39* | *40* | | |
| *Subtotal, Mandatory and Fee Funded Activities* | *130* | *0* | *130* | *121* | *130* | | |
| **Total, Homeland Security BA** | **20,620** | **12,264** | **32,884** | **41,035** | **41,347** | **24.8%** | **0.8%** |
| *Total, Mandatory and Fee Funded Activities* | *3,484* | *0* | *3,484* | *5,412* | *6,394* | | |
| **Discretionary Homeland Security BA less Mandatory and Fee Funded Activities** | **17,136** | **12,264** | **29,400** | **35,623** | **34,953** | **21.2%** | **-1.9%** |
| **Nondefense Homeland Security BA less Defense** | **16,197** | **11,531** | **27,728** | **32,172** | **34,633** | **16.0%** | **7.6%** |
| **Nondefense Discretionary Homeland Security BA less Mandatory and Fee Funded Activities and Defense** | **12,713** | **11,531** | **24,244** | **26,760** | **28,239** | **10.4%** | **5.5%** |

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

**Table 7: BRIDGE FROM JANUARY 2001 BASELINE TO CURRENT POLICY**

| | 2002 | | 2003 | | 2004 | | 2002-2011 | |
|---|---|---|---|---|---|---|---|---|
| | $ in Billions | As a % of the total change | $ in Billions | As a % of the total change | $ in Billions | As a % of the total change | $ in Billions | As a % of the total change |
| April 2001 Pre-Policy Baseline | 283 | | 334 | | 387 | | 5,637 | |
| Economic Downturn | -284 | 64% | -352 | 59% | -292 | 53% | -3174 | 55% |
| Enacted Policy (including debt service): | | | | | | | | |
| Tax Relief | -41 | 9% | -94 | 16% | -120 | 22% | -1491 | 26% |
| Stimulus | -59 | 13% | -41 | 7% | -31 | 6% | -79 | 1% |
| Other Enacted Legislation | -57 | 13% | -110 | 18% | -104 | 19% | -1022 | 18% |
| Current Baseline | -158 | | -264 | | -158 | | -129 | |
| *Memo: Total Change in Baseline* | (441) | 100% | (597) | 100% | (547) | 100% | (5,766) | 100% |

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

# ECONOMICS

## I: Economic Overview

From the end of the summer through the fall, the U.S. economy encountered another soft patch. Industrial Production declined in four of the final five months of 2002. Employment on non-farm payrolls declined by 38,000 jobs during the three months ending in December. State and local governments, which account for 12% of GDP, reported budget shortfalls totaling more than $17.5 billion in November. In addition, oil prices increased by almost $4 per barrel in the second half of last year.

Some retailers were hoping for a robust Christmas shopping season to boost their fortunes. However, the lateness of the Thanksgiving holiday reduced the number of days available to shoppers, and Christmas sales came in lower than projected.

As such, economic growth during the fourth quarter was roughly half as strong as economists had anticipated. GDP increased just 0.7% in the fourth quarter, down from a 4% annualized pace in the prior period. Most of the slowdown can be attributed to a 22% annualized drop in the production of motor vehicles and parts. On the positive side, business investment increased for the first time in more than two years, increasing 1.5% as a result of continued strength in equipment and software.

Going forward, there exists a great deal of uncertainty surrounding the geopolitical outlook. These risk are reflected in the recent volatility of the stock market and the elevated level of corporate yield spreads. Concerned consumers and businesses could continue to react to the uncertainty of an impending war by spending and investing less. Nevertheless, there are also reasons for optimism. The Federal Reserve's monetary policy is currently accommodative and Congress is likely to enact a moderate amount of stimulus.

## II: Comparison of Administration and CBO Economic Assumptions

Including associated interest costs, changes to the economic outlook from the January 2001 baseline have reduced OMB's 2003 surplus projection by $352 billion and the 2002-11 surplus projection by $3,174 billion. For CBO, changes to the economic outlook from that same baseline have reduced the 2003 surplus projection by $306 billion and the 2002-11 surplus projection by $2,577 billion. The economic changes referred to above also include the impact of technical re-estimates.

Despite economic assumptions in line with CBO and the private sector, OMB estimates a 2003 baseline budget deficit of $264 billion versus CBO's estimate of a $193 billion budget deficit.

Most of the discrepancy is attributable to different assumptions about how much tax revenue will be generated by a given level of economic output.

## Growth

OMB and CBO expect the recovery to continue this year following the recession that started almost two years ago.

OMB and CBO differ in their 2003 forecast of real GDP by 0.4 percentage points. CBO forecasts that GDP will grow 2.5% in 2003, slightly less than both Blue Chip and OMB. Each expects the economy to grow 2.8% and 2.9%, respectively. However, OMB's and CBO's forecasts converge in 2004 and remain virtually the same through 2008. During the six-year period 2003 to 2008, OMB's projects annual economic growth to average 3.3%. CBO's projection is just 0.1 percentage point lower.

## Inflation

Both OMB and CBO anticipate inflation to rise moderately this year as economic growth picks up, thereby reducing excess capacity and potentially restoring some pricing power to producers. CBO forecasts CPI inflation to reach its five-year average of 2.3% in 2003, dip slightly in 2004 and plateau at 2.5% in 2006 and beyond. Though differing in its path, Blue Chip's forecast of annual average inflation between 2003 and 2008 matches CBO's exactly at 2.4%. OMB is slightly more optimistic on inflation than CBO or Blue Chip. OMB projects that the CPI will increase 2.2% this year, and will reach its current five-year average by 2008.

Although the trend toward higher inflation is also evident in both OMB's and CBO's GDP deflator projections, the magnitude of the increase is different. OMB forecasts less of an increase in 2003 and trails CBO and Blue Chip by an average 0.4 percentage points from 2003 through 2008. CBO forecasts the GDP deflator to rise more rapidly in 2003 and steadily increase throughout the projection period.

## CPI - GDP Deflator Wedge

The relationship between the CPI and the GDP deflator is an important underlying factor in determining the budget outlook. Most of the cost of living adjustments that the federal government applies to wages and entitlement benefits are inflated using the CPI while revenue projections are based on the GDP deflator. A small difference (or wedge) between the two measures of inflation suggests a stronger budget forecast.

OMB assumes a CPI-GDP deflator wedge of 0.6 percent versus CBO's projection of 0.4 percent over the 2003-2008 budget window. The comparison of these two inflation projections implies that CBO is more optimistic than OMB in regards to this measure. Blue Chip also projects the CPI-GDP deflator wedge to average 0.4 percent.

## Income Shares

Income shares are a less publicized portion of the forecasts, although they can have key budgetary effects. Income shares depict the breakdown of national income between wages and salaries, benefits, corporate profits, proprietors' income, rental income and net interest. They are expressed as a share of GDP.

If all of the above were taxed the same, the division between income categories would make little budgetary difference. Yet, this is not the case. Wages and salaries and corporate profits are taxed at a higher effective tax rate -- as such, the higher they are relative to the other income categories, the higher the projected revenue stream. These latter two categories are termed the highly-taxed shares.

OMB expects the highly-taxed share to increase to 55.6% of GDP in 2003, peak in 2005 and decline steadily through 2008. CBO's projection follows a similar course, but differs in only two respects. Whereas OMB assumes that both wages and corporate profits increase as a share of GDP in the near-term, CBO only projects that corporate profits will rise. Beyond 2005, CBO's projection of the highly-taxed share surpasses OMB's levels.

## Interest Rates

Both OMB and CBO expect short-term interest rates to remain low this year (1.6 and 1.4 percent, respectively) and then nearly double in 2004 (to 3.3 and 3.5 percent, respectively). Although slightly higher in 2003, OMB's projection of short-term interest rates is consistently lower than CBO's by roughly 0.5 percentage point per year between 2004 and 2008. OMB projects long-term rates will average 5.2 percent from 2003 through 2008; CBO projects 5.4 percent.

## III: Sensitivity to Economic Changes

Given the uncertainty surrounding growth due to mounting geopolitical tensions, one might wonder what could happen to budget projections if the long-term trend in real GDP growth falls short of expectations. In its latest update, CBO looked at the possible impact of lower economic growth on their budget projections. If the growth rate of real GDP is 0.1 percentage point lower than expected starting in 2003, the total 2004-2013 budget deficit would be increased by $247 billion. According to similar analysis by OMB, a reduction in the real GDP growth rate of 1 percentage point would increase the 2003-2008 deficit by $465.4 billion. However, it is important to note that there are risks to both the upside and downside, not just the downside, as some have suggested.

## IV: The Forecasting Record

According to a CRS report entitled *Economic Forecasts and the Budget* that examined same year forecasts, OMB, CBO and Blue Chip all had a slight tendency to **understate** economic growth. Although the differences among the three forecasters are not considered statistically significant, there are some rather interesting contrasts worth noting. Between 1982 and 1992, OMB's forecasts of economic growth were more optimistic than their counterparts in Congress and the private sector, but still **understated** actual growth**.** CBO and Blue Chip both undershot economic growth by roughly 0.65 percentage points versus the administration's 0.47.

Throughout most of the 1990's, OMB's forecasts were roughly in line with those of Congress and the private sector. However, this seemingly positive step did not improve the accuracy of OMB's forecasts. Instead, mean error increased by slightly more than 0.25 percentage points and all three forecasters **understated** growth by roughly three-quarters of a percentage point, possibly due to the onset of the new economy and the inability of economists to understand its impact on productivity.

Precise forecasts of inflation also proved to be equally elusive with no one set of projections standing out as more or less accurate. OMB, CBO and Blue Chip **overestimated** future inflation on average by 0.26 percentage point. Short-term interest rate forecasts appeared to be less susceptible to error than the other metrics. In absolute terms, all three forecasts were within less than 0.20 percentage point of the actual rate with OMB being slightly more accurate than its counterparts.

## Average Error in Economic Forecasts 1982-2002

**(percentage points)**

| | OMB | CBO | Blue Chip |
|---|---|---|---|
| **Real GNP/GDP** | -0.60 | -0.68 | -0.65 |
| **CPI** | 0.27 | 0.23 | 0.30 |
| **91-Day T-Bill Rate** | 0.09 | 0.20 | 0.16 |

Source: CRS, January 2003

## ECONOMIC PROJECTIONS COMPARISON
**(Calendar Years)**

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **% Change (Year to Year):** | | | | | | | |
| Nominal GDP Growth | | | | | | | |
| Administration* | 3.6 | 4.2 | 5.2 | 5.1 | 5.0 | 5.0 | 4.9 |
| CBO* | 3.6 | 4.2 | 5.4 | 5.5 | 5.4 | 5.4 | 5.3 |
| Blue Chip* | 3.6 | 4.5 | 5.5 | 5.4 | 5.3 | 5.3 | 5.2 |
| Real GDP Growth | | | | | | | |
| Administration | 2.4 | 2.9 | 3.6 | 3.5 | 3.3 | 3.2 | 3.1 |
| CBO | 2.4 | 2.5 | 3.6 | 3.4 | 3.3 | 3.2 | 3.1 |
| Blue Chip | 2.4 | 2.8 | 3.6 | 3.3 | 3.1 | 3.1 | 3.1 |
| Consumer Price Index | | | | | | | |
| Administration | 1.6 | 2.2 | 2.1 | 2.1 | 2.2 | 2.2 | 2.3 |
| CBO | 1.6 | 2.3 | 2.2 | 2.4 | 2.5 | 2.5 | 2.5 |
| Blue Chip | 1.6 | 2.2 | 2.2 | 2.5 | 2.6 | 2.5 | 2.5 |
| GDP Price Index | | | | | | | |
| Administration | 1.1 | 1.3 | 1.5 | 1.5 | 1.7 | 1.7 | 1.8 |
| CBO | 1.1 | 1.6 | 1.7 | 2.0 | 2.1 | 2.1 | 2.2 |
| Blue Chip | 1.1 | 1.6 | 1.9 | 2.1 | 2.1 | 2.1 | 2.1 |
| **Annual Rate:** | | | | | | | |
| Unemployment | | | | | | | |
| Administration | 5.8 | 5.7 | 5.5 | 5.2 | 5.1 | 5.1 | 5.1 |
| CBO | 5.8 | 5.9 | 5.7 | 5.4 | 5.3 | 5.2 | 5.2 |
| Blue Chip | 5.8 | 5.9 | 5.5 | 5.1 | 5.1 | 5.1 | 5.1 |
| Three-Month T-Bill | | | | | | | |
| Administration | 1.6 | 1.6 | 3.3 | 4.0 | 4.2 | 4.2 | 4.3 |
| CBO | 1.6 | 1.4 | 3.5 | 4.8 | 4.9 | 4.9 | 4.9 |
| Blue Chip | 1.6 | 1.6 | 2.9 | 4.2 | 4.4 | 4.6 | 4.4 |
| Ten-Year T-Note | | | | | | | |
| Administration | 4.6 | 4.2 | 5.0 | 5.3 | 5.4 | 5.5 | 5.6 |
| CBO | 4.6 | 4.4 | 5.2 | 5.7 | 5.8 | 5.8 | 5.8 |
| Blue Chip | 4.6 | 4.4 | 5.2 | 5.6 | 5.8 | 5.7 | 5.7 |
| **Share of GDP:** | | | | | | | |
| Corporate Profits | | | | | | | |
| Administration | 6.3 | 7.1 | 7.2 | 8.9 | 8.5 | 8.2 | 8.0 |
| CBO | 6.2 | 6.8 | 7.3 | 9.2 | 9.4 | 9.2 | 8.9 |
| Wage and Salaries | | | | | | | |
| Administration | 48.1 | 48.5 | 48.7 | 48.8 | 48.7 | 48.6 | 48.5 |
| CBO | 48.1 | 48.1 | 48.1 | 48.1 | 48.0 | 48.0 | 47.9 |

*President's FY 2004 Budget; CBO's "Economic and Budget Outlook: Fiscal Years 2004 - 2013"; Blue Chip January 2003 Economic Indicators for 2003 and 2004, Blue Chip October Economic Indicators for 2005-2008.

# BUDGETING FOR A PERFORMANCE-BASED GOVERNMENT

**"The measure of compassion is more than good intentions, it is good results. Sympathy is not enough."**

- President George W. Bush
April 2002

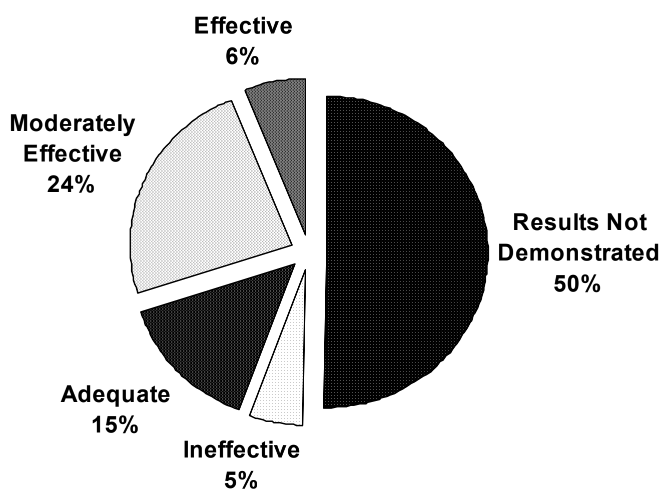
The United States Government currently spends nearly $2 trillion per year to fund nearly 1,000 federal programs. Since the 1960's, Presidential administrations have attempted to halt inefficiencies and waste through various initiatives aimed at creating measurable accountability within the federal government. These efforts have attempted to measure spending on both a qualitative and quantitative basis. The Government Performance and Results Act of 1993 was the most recent attempt to evaluate agencies' efficiency levels and performance. However, this effort has proven more or less ineffective due to ill-designed measures and criteria, creating nearly 13,000 pages of performance plans that have had little effect on future budgetary allocations. Since taking office in 2002, President George W. Bush has aimed to create a results-oriented government by measuring agencies' efficiency and performance levels in a precise and accurate manner.

President Bush's 2004 Budget outlines the Program Assessment Rating Tool (PART), a new plan to enrich budget analysis by instilling fiscal discipline into funding decisions. This task will be accomplished using a questionnaire to rate agencies' performance, and ultimately, future funding. Each PART questionnaire contains approximately 30 questions relating to agency purpose, design, strategic planning, management, and results. Agency responses to PART are evaluated and given one of five scores: Effective, Moderately Effective, Adequate, Ineffective, or Results Not Demonstrated. Each year, the OMB will evaluate 20 percent of Federal agencies using the new PART system. By the submission of the 2008 budget, all agencies will have been evaluated using this criteria, therefore allowing every dollar of federal spending to be accounted for on an annual basis.

In 2003, PART was used to evaluate 234 various agencies and programs. These agencies represent a wide variety of federal programs of various sizes and pertaining to a variety of interests. Of the programs evaluated in 2003, 6 percent were given an "Effective" rating and 24 percent of programs tested received score of "Moderately Effective." A bulk of the programs, nearly 50 percent, were unable to provide enough information to be evaluated by PART. This is due to programs' inability to measure outcomes and results (as opposed to merely inputs). Of the programs receiving a "Effective" and "Moderately Effective" rating, an average 6 percent funding increase resulted in the President's 2004 request. Programs determined "Ineffective" received an average increase of less than 1 percent. Lower ratings, however, do not always translate into reduced funding levels. Funding can be increased for an agency to provide new tools to increase efficiency or to implement new policies.

PART is a tool whose goal is to produce results that can be incorporated with traditional management techniques. These results can help spur meaningful dialogue and decision-making between program managers, budget analysts, and policy officials. PART will create a thorough evaluation that can guide unbiased and appropriate funding allocation decisions.

**2003 PART Results**




Source: FY2004 Federal Budget

# BUDGET BY FUNCTION

## FUNCTION 050: NATIONAL DEFENSE

The National Defense budget function includes the Department of Defense (95 percent of the function total), defense activities in the Department of Energy (4 percent), and defense activities in other agencies (less than 1 percent).

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 362.1 | 382.7 | 399.7 | 420.0 | 440.0 | 460.3 | 480.7 |
| Outlays | 348.6 | 376.3 | 390.4 | 410.1 | 423.2 | 436.4 | 460.5 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 362.1 | 381.9 | 391.2 | 399.6 | 408.3 | 417.6 | 427.5 |
| Outlays | 348.6 | 375.8 | 383.8 | 393.7 | 400.9 | 410.9 | 420.9 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | 0.8 | 8.4 | 20.4 | 31.7 | 42.7 | 53.2 |
| Outlays | --- | 0.5 | 6.6 | 16.4 | 22.3 | 25.6 | 39.6 |

The President's 2004 budget request for National Defense budget authority is $399.7 billion. This is a $17.0 billion increase above the 2003 requested level of $382.7 billion, a nominal increase of 4.4 percent.

Department of Defense. The President's budget proposes $379.9 billion in discretionary budget authority for the Department of Defense, an increase of $15.3 billion above the 2003 appropriated level of $364.6 billion. Highlights of the President's 2004 request include the following:

- *Military Personnel* appropriations finance the personnel costs of the active duty forces and the National Guard and Reserve. These appropriations would increase from $93.4 billion in 2003 to $98.6 billion in 2004 representing a nominal increase of 5.6 percent. The Administration proposes an active duty end strength of 1,388,100 and a Selected Reserves strength of 863,000 with pay raises ranging from 2.0 percent to 6.3 percent , targeted by rank and years of service.

- *Operations and Maintenance* appropriations finance the cost of operating and maintaining the Armed Forces. These appropriations would increase from $113.6 billion in 2003 to $117.0 billion in 2004, representing a nominal increase of 3.0 percent. The Administration proposes moving the Defense Health Program, IG, and Drug Interdiction accounts out of operations and maintenance appropriations in 2004.

- *Procurement* appropriations support the acquisition of aircraft, ships, combat vehicles, satellites and their launch vehicles, weapons and all capital equipment. These appropriations would increase from $70.0 billion in 2003 to $72.7 billion in 2004, representing a nominal increase of 3.9 percent. Major purchases for the Navy include a Virginia Class submarine, 3 DDG-51 destroyers, an LPD-17 amphibious transport ship, 2 cargo ships, 42 F/A-18E/F aircraft, and 11 V-22 aircraft. Major purchases for the Air Force include 22 F-22s, 11 C-17s, and 5 C-130Js. Major Army purchases include 301 Stryker armored wheeled vehicles.

- *Research, Development, Testing and Evaluation* appropriations support modernization through basic and applied research, fabrication of technology-demonstration devices, and development and testing of prototypes and full-scale pre-production hardware. These appropriations would increase from $56.8 billion in 2003 to $61.8 billion in 2004, representing a nominal increase of 8.8 percent. Funding would support development of new ship classes (DDX destroyer, the littoral combat ship, the CGX cruiser), aircraft (JSF, V-22), and helicopters (Comanche).

- *Military Construction and Family Housing* appropriations would decrease from $10.5 billion in 2003 to $9.0 billion in 2004. Military construction would decrease from $6.3 billion to $5.0 billion, representing a nominal decrease of 20.6 percent. (The decrease is somewhat misleading in that the Administration requested only $4.8 billion in 2003 and Congressional adds raised the level to $6.3 billion.) Family housing would decrease from $4.2 billion to $4.0 billion, representing a nominal decrease of 4.8 percent.

- *Missile Defense Program* appropriations would increase from $7.6 billion in 2003 to $9.1 billion in 2004, representing a nominal increase of 19.7 percent. Over the next two years the Administration plans to field a limited defense against ballistic missiles. In 2004, deployment of 10 land-based interceptors would provide modest capability against North Korean missiles. By the end of 2005, 10 more land-based interceptors; up to 20 sea-based interceptors on 3 Aegis ships; land, sea and space sensors; and command and control upgrades would add modest capability against Middle East threats.

<u>Department of Energy Defense Activities</u>. The President's budget proposes $16.9 billion in discretionary budget authority for defense activities in the Department of Energy, an increase of $1.1 billion above the 2003 requested level of $15.8 billion. Highlights of the President's 2004 request for defense activities in the Department of Energy include the following:

- Appropriations for the Department of Energy's *National Nuclear Security Administration* would increase from $7.9 billion in 2003 to $8.3 billion in 2004 representing an 11.7 percent nominal increase. Within this account, funding for weapons activities would increase 9.1 percent from $5.8 billion to $6.4 billion. Funding for defense nuclear non-proliferation activities would increase 30.4 percent from $1.0 billion to $1.3 billion.

- Appropriations for the Department of Energy's *defense environmental activities* would increase from $7.5 billion in 2003 to $7.8 billion in 2004 representing a 3.4 percent nominal increase.

## FUNCTION 150: INTERNATIONAL AFFAIRS

The International Affairs budget function funds the operation of embassies and other diplomatic missions abroad; foreign aid grants and technical assistance activities in less developed countries; security assistance to foreign governments; foreign military sales; U.S. contributions to international financial institutions and international organizations; the Export-Import Bank and other trade promotion activities; and refugee assistance.

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 25.1 | 20.5 | 23.8 | 28.0 | 30.6 | 32.1 | 33.3 |
| Outlays | 22.4 | 20.7 | 25.6 | 26.1 | 27.5 | 29.2 | 30.7 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 25.1 | 19.7 | 20.4 | 23.7 | 25.2 | 25.9 | 26.7 |
| Outlays | 22.4 | 19.9 | 23.4 | 22.9 | 23.1 | 23.9 | 24.6 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | 0.8 | 3.4 | 4.3 | 5.4 | 6.2 | 6.7 |
| Outlays | --- | 0.8 | 2.2 | 3.1 | 4.4 | 5.3 | 6.0 |

The President's 2004 budget request for International Affairs discretionary budget authority is $28.6 billion (The function total above includes mandatory spending of -$4.8 billion, the bulk of which is repayment of pre-credit reform loans). The discretionary request is $2.9 billion above the 2003 requested level of $25.7 billion, representing a nominal increase of 11.2 percent. Highlights of the President's 2004 request include the following:

- *Millennium Challenge Account*: The President's budget proposes $1.3 billion for a new program to aid developing countries that demonstrate commitments to govern justly, invest in people, and encourage economic freedom. The $1.3 billion is the first increment of a planned $5 billion annual funding level by 2006.

- *Global Aids Initiative*: The President's budget proposes $450 million for a new program to combat the HIV/AIDS pandemic. The $450 million is part of the President's five-year $15 billion Emergency Plan for AIDS relief directed to help the most afflicted countries in Africa and the Caribbean. The $450 million under this initiative augments an additional $1.55 billion for HIV/AIDS programs provided from other international affairs accounts and from the Department of Health and Human Services and the Center for Disease Control.

- *Economic Support Fund (ESF)*: The President's budget proposes $2.5 billion, the same level as last year's request. The ESF solidifies our relationship with prominent allies and also serves as a major element in the U.S. war on terrorism by providing assistance to the front-line states. Major recipients include:

- o Israel – $480 million (down from $800 million 2003)
- o Egypt – $575 million (down from $615 million in 2003)
- o West Bank/Gaza – $75 million (the same level as in 2003)
- o Jordan – $250 million (the same level as in 2003)
- o Turkey – $200 million (up from zero proposed in 2003)
- o Pakistan – $200 million (the same level as in 2003)
- o Afghanistan – $150 million (up from TBD proposed in 2003)
- o Indonesia – $60 million (the same level as in 2003)

The ESF would also provide $145 million for a new initiative, the Middle East Partnership Initiative to address structural reforms in the region.

- *Foreign Military Financing (FMF)*: The President's budget proposes $4.4 billion for this program to enhance the military capabilities of friends and allies, up from $4.1 billion in 2003. Major recipients include Israel ($2.2 billion), Egypt ($1.3 billion), Jordan ($206 million), Afghanistan ($105 million) and Colombia ($110 million).

- *International Narcotics Control and Law Enforcement (INCLE)*: The President's budget proposes $285 million for INCLE, up from $197 million in 2003. INCLE supports counter-narcotics and law enforcement country programs outside the Andean region.

- *Andean Counterdrug Initiative (ACI)*: The President's budget proposes $731 million, the same level as in 2003, to continue this multi-year effort to reduce the flow of drugs to the United States and prevent instability in the Andean region. Colombia would receive $463 million (up from $439 million in 2003) with $313 million for drug interdiction efforts.

- *Nonproliferation Programs*: The Administration proposes $203 million for these programs, $43 million less than was requested in 2003.

- *Support for East European Democracy (SEED) and the Freedom Support Act (FSA)*: Funding for these two programs would decline. The Administration proposes $435 million for Eastern Europe and the Baltic States under the SEED Act, down from $495 million in 2003. The Administration proposes $575 million for assistance for independent states of the Former Soviet Union under the FSA, down from $755 million in 2003.

- *Embassy Security*: The Administration proposes $1.5 billion for Worldwide Security Upgrades, $200 million more than was requested in 2003.

- *Peace Corps*: The Administration proposes $359 million for the Peace Corps, $42 million more than was requested in 2003. Funding would support 10,000 volunteers.

## FUNCTION 250: GENERAL SCIENCE, SPACE AND TECHNOLOGY

This function includes the National Aeronautics and Space Administration (NASA) civilian space program and basic research programs of the National Science Foundation (NSF) and Department of Energy (DOE).

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 22.0 | 22.4 | 23.5 | 24.3 | 25.1 | 26.0 | 26.7 |
| Outlays | 20.8 | 21.7 | 22.9 | 23.8 | 24.7 | 25.4 | 26.2 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 22.0 | 21.7 | 22.0 | 22.4 | 22.8 | 23.3 | 23.8 |
| Outlays | 20.8 | 21.5 | 21.7 | 22.3 | 22.7 | 23.0 | 23.5 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | 0.6 | 1.5 | 1.9 | 2.3 | 2.7 | 3.0 |
| Outlays | --- | 0.2 | 1.2 | 1.5 | 2.0 | 2.4 | 2.8 |

The 2004 budget request provides $23.5 billion in budget authority for space, aeronautical research, and basic scientific research. This is a 4.9 percent increase over the 2003 request of $22.4 billion. This is mostly $23.5 billion in discretionary budget authority, a 5.4 percent increase.

<u>NASA</u>

- The President's request includes $15.5 billion for NASA, a $469 million (3.1 percent) increase over the 2003 request.

- The request includes $6.1 billion for **Space Flight** (less than a 1 percent increase), $4 billion for **Space Science** (15.5 percent increase), $1.6 billion for **Earth Science** (3.6 percent reduction), $973 million for **Biological & Physical Research** (6.6 percent increase), $959 million for **Aeronautics** (1.1 percent increase), and $170 million for **Education** (6.3 percent increase).

- Included in the request is $337 million for nine new programs (Climate Change Research Acceleration, Aviation Security, National Airspace System Transition Augmentation, Quiet Aircraft Technology Acceleration, Project Prometheus, Optical Communications, Beyond Einstein Initiative, Human Research Initiative, and Education Initiative).

<u>NSF</u>

- The President's request includes $5.5 billion for NSF, a $453 million (9 percent) increase over the 2003 request.

- Included in the request is $4.1 billion for **Research and Related Activities** (8.5 percent increase), $938 million for **Education and Human Resources** (3.3 percent increase), and $202 million for **Research Equipment and Facilities Construction** (60.2 percent increase).

- The request includes $773 million for certain emerging areas with particular promise. This includes $100 million for **Biocomplexity in the Environment**, $303 million for **Information Technology Research**, $249 million for **Nanoscale Science and Engineering**, $89 million for **Mathematical Sciences**, $24 million for **Human and Social Dynamics**, and $9 million for **Workforce for the 21st Century**.

<u>DOE</u>

- The 2004 budget request funds **DOE science programs** at $3.3 billion, a $47 million (1.4 percent) increase over the 2003 request. Major DOE initiatives include: **Basic Energy Sciences** ($1 billion), **High Energy Physics** ($738 million), **Biological and Environmental Research** ($500 million), and **Nuclear Physics** ($389 million).

<u>Performance-Based Government</u>

- NASA has made progress on all five of the President's Management Agenda initiatives, earning a green for progress in each area. For both Human Capital and Budget and Performance Integration, the status was upgraded from red to yellow. However, due to a disclaimer of opinion on NASA's 2001 audit, Financial Performance fell to red.

- NSF improved its status on E-Government to green and maintained its green rating for Financial Performance. However, the status of Human Capital, Competitive Sourcing, and Budget and Performance remains red. Progress has been made in all areas except Competitive Sourcing, for which even NSF's progress rating is red.

## FUNCTION 270: ENERGY

This function includes the Department of Energy's civilian programs, the Rural Utilities Service, the power programs of the Tennessee Valley Authority (TVA), and the Nuclear Regulatory Commission (NRC).

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 0.4 | 0.7 | 0.9 | 1.7 | 1.8 | 1.3 | 2.2 |
| Outlays | 0.5 | 0.7 | 0.9 | 1.5 | 1.8 | 1.2 | 1.8 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 0.4 | 0.2 | 0.2 | 0.6 | 0.8 | 0.7 | 1.3 |
| Outlays | 0.5 | 0.4 | 0.3 | 0.6 | 0.8 | 0.6 | 1.2 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | 0.5 | 0.7 | 1.1 | 1.0 | 0.6 | 0.8 |
| Outlays | --- | 0.3 | 0.6 | 0.9 | 1.0 | 0.6 | 0.6 |

The President's 2004 budget would increase discretionary BA for Energy by $300 million, or 9.1 percent above the 2003 requested discretionary level. The President is recommending the following major program changes:

- The President has proposed a 5 year, $1.2 billion **Freedom Fuel Initiative** to reverse America's growing dependence on foreign oil, by providing funds for research for a commercially viable hydrogen-powered fuel cell technology. This initiative will supplement the previous Freedom Car initiative started in last year's budget. The Freedom Fuel Initiative provides $720 million in new budget authority over the next five years for this purpose. In 2004 the President provides $272 million for the Freedom Fuel and Freedom Car Initiatives.

- The President proposes $591 million in 2004 for **Yucca Mountain** to complete work needed for construction permit application for the nuclear waste repository. This is the same level as was requested last year. In addition, the President has proposed a discretionary cap adjustment for any amount of funding over some base level (i.e. whatever is finally enacted for 2003). This would allow sufficient funds (to complete construction) to be appropriated without exceeding the discretionary caps, which the Administration has proposed to re-establish as a means of statutory control of discretionary spending.

- The President requests $876 million for **Energy Conservation**. This is a decrease of $36 million or 3.9 percent from the 2003 request. Within energy conservation, the President continues his commitment to **Weatherization Assistance Programs** by requesting $288 million.

- The President has requested $444 million in 2004 for **Energy Efficiency and Renewable Energy**. This is $37 million or 9 percent more than the 2003 request. Hydrogen research and the National Climate Change Technology Initiative are priorities within the Energy Efficiency and Renewable Energy account.

- The President's request for **Fossil Energy Research and Development** is $519 million in 2004**.** Some specific programs include:

  - $320 million for the **Coal Research Initiative**. This is an increase of $5 million over the 2003 level.

  - $62 million increase for **Sequestration R&D**. This will help test new and advanced concepts for greenhouse gas capture.

- **Nuclear Energy Science and Technologies** would receive $387 million. This is a $61 million increase or 18.6 percent over the 2003 request. The majority of the increase is due to a 245 percent increase in funding for the **advanced fuel cycle initiative**. This program will enable the development of technologies to significantly reduce the volume of spent fuel requiring geologic disposal as well as enable the development of advanced fuels and fuel recycling technologies.

- The President proposes $463 million for **Non-Defense Site Acceleration Completion and Environmental Service**, this is $85 million or 15.5 percent less than the 2003 request.

<u>Mandatory Proposals</u>

- The President proposes increasing the **Bonneville Power Administration's** borrowing authority ceiling by $700 million, from $3.75 billion to $4.45 billion. This would increase outlays by $700 million over the 2005-2007 period. This increase would allow the BPA to make needed capital investments. This proposal is currently included in the Senate-passed version of the Omnibus appropriations bill.

- The President proposes that the **Power Marketing Administration (PMA)** directly fund the operation and maintenance of the Corps of Engineers hydropwer facilities from power sale revenues. The budget requests $149 million for these activities in 2004. Over the 5-year period, the proposal totals $756 million. This proposal would allow PMA revenues to be used for the Army Corps of Engineers' operation and maintenance account. This proposal would permit a more timely maintenance of hydropwer facilities. This proposal was included in last year's budget request.

<u>Performance Based Budgeting</u>

Under the President's management agenda, the Department of Energy has improved greatly since last year. It has been upgraded to yellow lights in Human Capital, Financial Performance, and expanding E-Government, indicating good progress in these areas. It is still getting a red light in Competitive Sourcing, Budget and Performance Integration and Research and Development Investment Criteria, inspite of some progress being made in these areas.

Based on PART analysis, the Department of Energy seems to plan and manage its programs fairly well. It would benefit from defining long and short term goals and determining benchmarks to assess whether these goals have been met.

## FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT

Function 300 includes a wide variety of programs whose primary purpose is to develop, manage, and maintain the nation's natural resources and environment. Agencies with major programs in this function include: the Army of Corps of Engineers, Bureau of Reclamation, Forest Service, Bureau of Land Management (BLM), Fish and Wildlife Service (FWS), the National Park Service (NPS), Environmental Protection Agency (EPA), National Oceanic and Atmospheric Administration (NOAA), and the U.S. Geological Survey (USGS).

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 31.1 | 29.4 | 30.4 | 31.4 | 32.1 | 32.8 | 33.5 |
| Outlays | 29.5 | 30.6 | 31.6 | 31.8 | 32.5 | 32.8 | 33.5 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 31.1 | 31.1 | 32.6 | 34.0 | 34.9 | 36.0 | 37.0 |
| Outlays | 29.5 | 31.5 | 32.9 | 33.9 | 35.1 | 35.9 | 36.8 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | — | -1.8 | -2.2 | -2.5 | -2.9 | -3.2 | -3.4 |
| Outlays | — | -0.9 | -1.3 | -2.1 | -2.6 | -3.0 | -3.3 |

The President's 2004 budget would reduce BA for natural resources and the environment by $1.7 billion, or 5.5 percent below the 2003 request level. The President is recommending the following major program changes:

- The President proposes $2.3 billion for the **National Fire Plan** within the Forest Service and Department of the Interior. This is $218 million or 10 percent more than the President requested in 2003. The majority of this requested increase is for suppression activities.

- The President requests $169 million in new funds to support the Department's plan to reform management of its **fiduciary obligations to Tribes and individual Indians**.

- The President requests $706 million to address the **National Park Service maintenance backlog**. This is $45 million or 6.8 percent more than the 2003 request. Addressing the maintenance backlog is one of the Department's priorities.

- The President proposes $432 million for **Farm Bill Technical Assistance** to pay for the delivery of conservation programs in the farm bill. This is $99 million or 29.7 percent more than the 2003 request.

- The President requests $113 million for the **Cooperative Conservation Initiative**. This initiative funds restoration, protection, and enhancement of natural areas through both established programs which feature creative approaches to conservation through public-private partnerships.

- The President requests $1.6 billion for the **Conservation Spending Cap (CSC)** programs, but notes that the CSC is no longer relevant due to the expiration of the overall caps under the Budget Enforcement Act.

- The President requests $901 million for the **Land and Water Conservation Fund**. This includes funding for land acquisition, various grant programs that encourage stewardship, and species protection. Four new grant programs are included in this year's request. These are the Cooperative Endangered Species Conservation Fund, the North American Wetlands Conservation Fund, the Forest Legacy Program, and the Forest Stewardship Program.

- The President requests $200 million for **Payment in Lieu of Taxes,** a $35 million or 21 percent increase from the 2003 requested level.

- The President requests $7.7 billion for the **Environmental Protection Agency (EPA)**. This is a $10 million increase over the 2003 request level. Within the EPA, the President increases funding for **Programs and management** by $172 million or 8.3 percent over the 2003 request level. The President decreases funding for the **Clean Water State Revolving Fund** by $362 million or 29.9 percent from the 2003 requested level.

- The President requests a 0.8 percent increase from the 2003 request for the **Corps of Engineers**. This is, however, a 13 percent decrease compared to the 2002 level. The administration continues its "no new starts" policy in the Corps' **construction** budget, which is funded at $1.028 billion-- $281 million or 21.4 percent less than the 2003 request. In addition, the President proposes expanded use of the Inland Waterways Trust Fund and the Harbor Maintenance Trust fund to pay for Corps activities.

<u>Mandatory Proposals</u>

- The President is proposing to make the **Recreation Fee Demonstration Program** permanent. This proposal includes the Forest Service as well as the Department of Interior. The Demonstration Program has allowed the Forest Service and Department of Interior to collect entrance fees and use a portion of those fees without further appropriation for maintenance and other projects. Over 5 years, this program would have a net cost of $98 million.

- The President proposes an amendment to the **Federal Land Transaction Facilitiation Act** that would provide an additional $92 million in receipts over 5 years. This would allow the BLM to use updated management plans to identify property suitable for disposal as well as allow a certain portion of receipts to be used by the BLM for restoration projects. It would cap receipt retention at $100 million per year.

- The President proposes a legislative change that would cap the **Conservation Security Program** at $2 billion for 10 years. This would save $1.6 billion over 5 years.

Performance Based Budgeting

The President's Management Agenda continues to give the Department of Interior red lights in all categories, although it notes that progress has been made, particularly in Human Capital, Competitive Sourcing, Expanding E- Government, and Budget and Performance Integration.

The PART analysis of the Department of Interior resulted in new goals and performance measures for most programs. It found six programs moderately effective, two programs were rated as adequate, and seven as results not demonstrated.

## FUNCTION 350: AGRICULTURE

This function includes programs that intend to promote the economic stability of agriculture. Programs in this function include direct assistance and loans to food and fiber producers, market information and agricultural research. Producers are assisted with production flexibility contract payments, crop insurance, non-recourse crop loans, operating loans and export promotion.

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 23.8 | 20.1 | 21.1 | 24.3 | 23.9 | 23.0 | 21.5 |
| Outlays | 22.2 | 20.8 | 20.8 | 24.2 | 23.9 | 23.1 | 21.5 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 23.8 | 20.8 | 21.8 | 24.8 | 24.5 | 23.6 | 22.2 |
| Outlays | 22.2 | 21.2 | 21.3 | 24.8 | 24.6 | 23.7 | 22.2 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | -0.7 | -0.6 | -0.6 | -0.6 | -0.6 | -0.7 |
| Outlays | --- | -0.4 | -0.5 | -0.6 | -0.7 | -0.7 | -0.7 |

The President's 2004 budget increases BA for Agriculture by $1 billion, or 5 percent above the 2003 requested level. The price support programs operated by the Commodity Credit Corporation (CCC) constitute most of the spending in this function. This year the CCC totals 12.9 billion in BA and $13.1 billion in outlays. (This does not include conservation totals that are included in function 300.) The President is recommending the following major program changes:

- An increase of $42 million over the 2003 budget for food safety and inspection.

- Funding for the Agriculture Research Service would increase by $16 million over the 2003 requested level.

- Funding for the Common Computing Environment program would increase by $44 million or 33 percent. This program will help modernize the department's computer system.

<u>New User Fees</u>

- The President proposes a new overtime fee for the cost Food Safety and Inspection Service inspection for extra shifts. This will increase receipts by $122 million in 2004.

- The Administration re-proposes an expansion to the current Animal Plant Health Inspection Service (APHIS) fees, and Grain Inspection, Packers and Stockyards Administration

(GIPSA) grain inspection and weighing fees, and would establish a new GIPSA licensing fee for the cost of the Packers and Stockyard program. These fees, totaling $37 million, should offset costs associated with the programs.

Mandatory Savings Used as Discretionary Offsets

- The Administration proposes limiting spending on several mandatory agriculture programs that will provide discretionary saving of $640 million in 2004 and $2.7 billion over 5 years. This includes:
  - $173 million from farm bill conservation programs,
  - $143 million from rural development and energy spending,
  - $120 million from the Initiative for Future Agriculture and Food Systems,
  - $68 million from the Conservation Security Program,
  - $68 million from crop insurance modifications,
  - $50 million form the Watershed Rehabilitation Program, and
  - $18 million from the Wildlife Habitat Incentives Program.

Performance Based Budgeting

Under the President's management agenda, the Department of Agriculture received a yellow light in Expanding E-Government, and red lights in the remaining categories. The department is lagging behind other agencies in its improvements in the Management Agenda categories. Some improvements have been made in Human Capital, Financial Performance, and Budget and Performance Integration.

Based on its PART Assessment, the USDA needs to establish useful performance measures to improve accountability. In addition, the USDA would benefit from improving the quality of its goals. Of 13 programs analyzed, one program received an adequate ranking while the remaining 12 received the results not demonstrated ranking.

## FUNCTION 370: COMMERCE AND HOUSING CREDIT

This function includes discretionary housing programs, such as subsidies for single and multifamily housing in rural areas and mortgage insurance provided by the Federal Housing Administration; net spending by the Postal Service; discretionary funding for commerce programs, such as international trade and exports, science and technology, the census, and small business; and mandatory spending for deposit insurance activities related to banks, savings and loans, and credit unions.

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 11.3 | 8.5 | 9.6 | 9.5 | 9.6 | 11.6 | 11.3 |
| Outlays | -0.4 | 1.3 | -0.7 | -2.0 | 0.2 | 1.6 | 1.4 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 11.3 | 8.6 | 9.6 | 9.1 | 8.8 | 10.7 | 10.3 |
| Outlays | -0.4 | 4.9 | 1.6 | -0.3 | -0.6 | 0.7 | 0.4 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | -0.1 | -0.1 | 0.4 | 0.8 | 0.9 | 1.0 |
| Outlays | --- | -3.6 | -2.3 | -1.7 | 0.9 | 0.8 | 0.9 |

The President's 2004 budget appears to reduce outlays (relative to the baseline) in the near term because of a major proposal relating to the Postal Service, and would increase outlays subsequently primarily because of proposed increases in federal mortgage insurance programs and for the census. The President is recommending the following major program changes:

Discretionary

- As previously announced, the President proposes to increase funding in 2004 for the **Securities and Exchange Commission** to $842 million – almost doubling (91 percent more) the level enacted for 2002 – to enforce corporate responsibility efforts under the Sarbanes-Oxley Act.

- The budget reflects the increases over the baseline necessary to conduct the next **decennial census** in 2010, starting with $0.1 billion more in 2004 and increasing to $0.5 billion more by 2008.

- In the Department of Commerce, the budget again proposes to eliminate the **Advanced Technology Program** in 2004 and eliminate federal funding for **Manufacturing Extension Partnership** centers older than six years that could be funded instead by user fees (together saving about $0.3 billion annually).

- The budget proposes to repeal a provision in current law that requires the **Customs Service to distribute collected anti-dumping duties** to affected domestic producers (instead, the Treasury will retain the duties). Although these payments are mandatory under current law, this proposal appears to suggest that the repeal should occur in appropriations legislation to allow the savings to offset increased discretionary spending. The proposal would reduce the payments of such duties by $230 million annually beginning in 2004.

- The President also proposes a new single family loan guarantee product that would extend **Federal Housing Administration (FHA**) insurance to borrowers who cannot meet existing standards due to poor credit ratings. The FHA proposals would increase outlays by $2.3 billion over the next five years.

<u>Mandatory</u>

- Last fall, OMB and OPM discovered that under a statutory formula in place since 1970, the **Postal Service** is on a pace to overpay what it owes to OPM to cover the unfunded liability of pension benefits of postal employees hired under the Civil Service Retirement System (CSRS – those hired before 1984). Therefore, in November, the Administration sent to the Congress legislation that would reduce the amount the Postal Service is scheduled to pay to CSRS under current law. The President's budget reflects this legislation, which would reduce the Postal Service's payments to the CSRS fund by $3.5 billion in 2003 and by an average of $3 billion per year over the subsequent five years. (See Function 950 for discussion of effect on CSRS receipts.) The Administration must be assuming that the Postal Service will use this windfall to reduce its debt (rather than forgo an expected postal rate increase, which is what the Postal Service has indicated it would do instead), because its budget reflects expected increased profits (or reduced deficits) to the Postal Service of $3.5 billion in 2003 and $2.7 billion and $2.9 billion in 2004 and 2005, respectively. On January 27, 2003, CBO issued an analysis of the proposed legislation, estimating that it most likely would increase the deficit by $3.5 billion in 2003 and by an average of $3 billion annually over 2004-2008. CBO also pointed out that the legislation ignores the unfunded liability that the Postal Service owes for the future health benefits of all of its employees when they retire. The annual cost of covering this unfunded liability for health benefits would significantly exceed the "savings" the Administration is proposing to allow the Postal Service to keep through this legislation.

- The President's budget proposes to merge the **Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF)** in 2004, resulting in increased outlays of $1.6 billion over the next five years. BIF and SAIF are the two deposit insurance funds that cover losses to member banks and thrifts, respectively.

## FUNCTION 400: TRANSPORTATION

This function supports all major modes of transportation. Function 400 includes ground transportation programs, such as the federal-aid highway program, mass transit, motor carrier safety, and the National Rail Passenger Corporation (Amtrak); air transportation through the Federal Aviation Administration (FAA) airport improvement program, facilities and equipment program, and operation of the air traffic control system; water transportation through the Coast Guard and Maritime Administration; the Transportation Security Administration (TSA); the Surface Transportation Board; the National Transportation Safety Board; and related transportation safety and support activities within the Department of Transportation.

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 68.9 | 63.6 | 63.8 | 65.1 | 66.8 | 68.4 | 70.0 |
| Outlays | 61.9 | 64.2 | 63.4 | 64.3 | 65.1 | 66.8 | 68.9 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 68.9 | 64.0 | 63.6 | 65.1 | 66.9 | 68.6 | 70.2 |
| Outlays | 61.9 | 64.6 | 63.0 | 63.4 | 63.7 | 64.9 | 66.7 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | ---- | -0.473 | 0.257 | 0.077 | -0.056 | -0.193 | -0.177 |
| Outlays | ---- | -0.406 | 0.400 | 0.948 | 1.401 | 1.873 | 2.143 |

For 2004, the President's budget proposes total budget authority for function 400 of $63.8 billion (including an obligation limitation of $39.6 billion), a minor increase from last year's request of $63.6 billion.

### Federal Highway Administration

- The 2004 budget request includes an **obligation limitation of $29.3 billion** for the Federal-Aid to Highways Program, a **6 percent increase** from the 2003 request of $27.6 billion. The budget request links highway spending (including motor carrier safety and highway safety) to incoming receipts into the Highway Account of the Highway Trust Fund. The budget request also re-directs all revenue from **gasohol taxes** from the General Fund of the Treasury to the Highway Trust Fund thereby increasing available receipts by **$600 million per year**. (Currently 2.5 cents per gallon of the gasohol tax is deposited into the General Fund of the Treasury.)

- The budget request does not include a revenue aligned budget authority (**RABA**) adjustment which ties highway spending to gas tax receipts. The Administration intends to propose a RABA adjustment it its TEA-21 reauthorization proposal.

**Federal Transit Administration (FTA)**

- The proposed **2004 budget is $7.2 billion**, the same as the 2003 President's budget request. The request reflects the consolidation or streamlining of various programs.

- The President's request includes **$5.6 billion for transit purposes** of which $4.7 billion is directed towards the Urbanized Area Formula program, which helps meet the rehabilitation and refurbishment needs of existing fixed guideway systems. The budget also includes $741 million for state administered programs, which include the Non-Urbanized Area Formula Program, the Elderly and Persons with Disabilities Program, and the Job Access and Reverse Commute Program. The request includes $120 million for planning and research.

- The President's request includes **$1.5 billion for New Starts projects**, which includes 26 existing, pending, or proposed multi-year contractual transit agreements that include commuter rail, light rail, heavy rail, and bus rapid transit.

- Further, $40 million is requested to support transit security to improve the state of security knowledge among transit professionals, and **$66 million for project and financial management oversight** of transit projects.

**Federal Motor Carrier Safety Administration (FMCSA)**

- The total FMCSA 2004 request of **$447 million is a 21 percent increase from 2003.** As part of the President's priority of improving safety on the nation's highways, the budget request includes $224 million for FMCSA, which represents a 33 percent increase from his 2003 request.

- State safety enforcement efforts at the southern border are funded at **$23 million** to ensure the safety of **Mexican trucks** and buses entering the United States. The request also includes a new grant program initiative which would support State HAZMAT enforcement and regulatory compatibility at the northern border to ensure that all points of entry to the U.S. transportation system are fortified with comprehensive safety measures.

**Federal Aviation Administration (FAA)**

- The total **FAA 2004 request of $14 billion** is approximately 3 percent higher than the 2003 request.

- The President's budget includes **$7.6 billion for FAA operations**, $2.9 billion for facilities and equipment (F&E), and $100 million for research engineering and development (RED). Another $3.4 billion in grants is provided for planning and development of the nation's airports which includes security, capacity, and noise-reduction projects.

- The budget request provides **$145 million for homeland and national security**, including funds to hire 26 controllers to work with the Department of Defense to better manage and secure the national airspace.

**Federal Rail Administration (FRA)**

- The total request of **$1.1 billion reflects an increase of 53 percent over the 2003 request** for FRA. The majority of this increase is due to a significant increase in the request for grants to the National Passenger Rail Corporation (**Amtrak**).

- The budget request provides **$900 million for Amtrak** (the National Passenger Rail Corporation). Amtrak received $521 million 2002 and also received $100 million in the 2002 emergency supplemental. Amtrak's current authorization expires December 31, 2002.

- The budget request also includes **$131 million for rail safety and operations**, an 11 percent increase over the FY 2003 request. New initiatives funded by this account include technology which will allow FRA to inspect significantly more track miles due to the increasing number of hazardous material shipments over rail. Additionally, $35 million is included for research and development and **$23 million for high-speed rail operations**.

**Infrastructure Performance and Maintenance**

- The Administration proposes a **new highway initiative funded at $1 billion per year** for six years. This initiative would be targeted to "ready-to-go" highway projects that address traffic congestion and improve infrastructure conditions. States would be required to commit funds in the first half of each fiscal year or the funds would be reallocated among other states.

**Research and Special Programs Administration (RSPA)**

- The total **RSPA request of $132 million** in 2004 represents an increase of $9.6 million, or 8 percent, from 2003. The request includes $67 million in funding for pipeline safety, a 5 percent increase over the 2003 level. It also includes **$25 million** to improve the safety of **hazardous materials transportation**.

**Performance Based Government**

- The Department of Transportation (DOT) has established internal accountability standards to strengthen management agenda efforts. Overall, DOT has shown substantial progress in each management agenda area, and therefore received all green lights in the progress category. However, since much of the subsequent implementation is still pending, DOT received mostly red lights and one yellow light in the status category.

## FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

This function covers the regional and developmental programs that fund physical facilities or financial infrastructures of communities. The major programs are administered through a variety of agencies including the Department of Housing and Urban Development, the Appalachian Regional Commission (ARC), the Tennessee Valley Authority (TVA), the Economic Development Administration (EDA), the Bureau of Indian Affairs (BIA), the Federal Emergency Management Agency (FEMA), and the Department of Agriculture.

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 23.1 | 15.4 | 13.6 | 13.9 | 14.2 | 14.5 | 14.9 |
| Outlays | 13.0 | 18.5 | 17.1 | 16.4 | 14.2 | 14.2 | 14.6 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 23.1 | 12.0 | 11.6 | 11.8 | 12.0 | 12.2 | 12.4 |
| Outlays | 13.0 | 16.8 | 14.2 | 13.6 | 11.6 | 11.6 | 11.8 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | 3.4 | 2.0 | 2.1 | 2.2 | 2.3 | 2.5 |
| Outlays | --- | 1.7 | 2.8 | 2.8 | 2.6 | 2.6 | 2.7 |

The President's 2004 budget would decrease BA for community and regional development by $1.8 billion, or 11.7 percent below the 2003 level. Most of the spending in this function is for discretionary programs. The President is recommending the following major program changes:

### Emergency Preparedness and Response

- As part of the newly-formed Department of Homeland Security (DHS), what was once known as the **Federal Emergency Management Agency (FEMA)** and all its activities will be managed by the Emergency Preparedness and Response Directorate within DHS.

- The President proposes $3.5 billion for the **Office of Domestic Preparedness** to ensure that first responders are properly trained and equipped, including $0.5 billion for assistance to firefighters, particularly for terrorist preparedness. Still another $0.5 billion is included for state and local law enforcement anti-terrorism activities.

- The 2004 budget provides $3.2 billion for **Disaster Relief** activities. This level is consistent with the average non-terrorist event costs over the past five years. This includes $2.0 billion in new money, as well as money left over from prior years. This $2.0 billion in new money represents an increase of $134 million over the 2003 level.

- The budget also proposes a new $300 million **pre-disaster mitigation** program. This matches a proposal in the 2003 budget and replaces the existing formula-based program with competitive awards to ensure that the most worthwhile and most effective projects are funded.

- The President's budget also continues its commitment to protect the public against flood damage by supporting the **Flood Map Modernization Fund**. The 2004 budget includes $200 million to bring up to speed the out-of-date and inaccurate maps. In 2003, the budget proposed $300 million for this program.

**Other Programs**

- The President's budget would provide $4.7 billion for **Community Development Block Grants (CDBG)**, a level that would match the previous year's funding. As in the prior year, the President raises concerns with regard to this program. Specifically, the budget points out that the current distribution of CDBG formula funds includes many grants to higher income cities and counties. The Administration will continue to review this program and develop proposals to better incorporate poorer communities with poverty rates above the national average.

- The budget requests $1.1 billion for the **Bureau of Indian Affairs (BIA)**, which is an increase of $31 million from 2003. The budget continues to support **Indian school construction** and provides $346 million to improve academic performance at BIA schools and to eliminate the school maintenance and repair backlog.

## FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

This function includes those activities designed to promote education, to provide social services for needy individuals, and to conduct research directly related to these program areas. In general, the activities funded by this function are administered through the Departments of Labor, Health and Human Services, and Education.

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 79.9 | 88.5 | 86.0 | 86.1 | 87.5 | 89.3 | 91.5 |
| Outlays | 70.5 | 86.3 | 85.3 | 84.5 | 85.9 | 87.5 | 89.4 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 79.9 | 84.1 | 82.8 | 82.3 | 83.1 | 84.2 | 85.6 |
| Outlays | 70.5 | 84.2 | 82.9 | 81.4 | 81.9 | 82.8 | 84.1 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | 4.3 | 3.2 | 3.8 | 4.4 | 5.1 | 5.9 |
| Outlays | --- | 2.0 | 2.4 | 3.0 | 4.0 | 4.7 | 5.4 |

Due to complexities in mandatory student loan and reemployment accounts, function totals can be deceptive in function 500. In discretionary budget authority, the President's request includes $75.2 billion for Education, Training, Employment and Social Services, a 4.0 percent increase over the 2003 request. The request also includes $10.8 billion in mandatory budget authority, a 33.3 percent reduction. The apparent reduction from 2003 to 2004 is largely the result of unusually high 2003 levels which occurred for a number of reasons, including an upwards reestimate of the subsidy costs of the Direct Student Loan program account.

Department of Education

- The request includes $53.1 billion in discretionary funding for the Department of Education (ED). This is $2.8 billion (5.6 percent) over the 2003 request - the largest dollar increase of any domestic agency. Additionally, the request includes $8.2 billion in mandatory spending, bringing the total ED request to $61.4 billion.

- The President proposes $15 billion in advance appropriations in 2005, the same level as was requested in the 2003 budget.

Elementary and Secondary Education

- The request includes $22.5 billion for **No Child Left Behind** programs. This is a $500 million (2.3 percent) increase over the 2003 request of $22 billion. Included is $12.4 billion for **Title I Grants to Local Education Agencies** ($1 billion increase), $1.2 billion for **Reading First** ($75 million increase), and $1 billion for **Impact Aid** ($125 million reduction).

- The President proposes $2.85 billion for **Title II Improving Teacher Quality State Grants**, the same level as the 2003 request. However, included in the request are a number of other elementary and secondary as well as postsecondary programs that target teachers. These programs include **Troops-to-Teachers** ($25 million), **Transition to Teaching** ($49 million), loan forgiveness (mandatory: $199 million), and tax deductions ($302 million). Taken as a whole, ED estimates that the 2004 request includes $4.6 billion for programs targeting teachers. This is a $416 million (10.1 percent) increase over the 2003 request of $4.1 billion for these programs.

- The request proposes a new initiative, the **Choice Incentive Fund**, which would provide competitive awards to States, local education agencies, and community-based nonprofit organizations that would provide students with expanded choice. The program would expand opportunities for parents to transfer children from low-performing schools to public, charter, or private schools. A portion of the $75 million request would be reserved for school choice programs in the District of Columbia. The President requested $50 million in his 2003 budget for the program.

<u>Special Education</u>

- For the **Individuals with Disabilities Education Act (IDEA)**, the request includes $9.5 billion for **Special Education Grants to States**. This is a $1 billion (11.8 percent) increase over the 2003 request. This represents roughly 19 percent of average per pupil expenditures, the highest ever.

<u>Postsecondary Education</u>

- The request includes a $1.9 billion (17 percent) increase for **Pell Grants**, bringing total funding for Pell to $12.7 billion. This would eliminate the shortfall in the Pell program and maintain the $4,000 maximum award. This is based on projections that the surge in Pell Grant volume seen in recent years will level off and historical trends will resume. Additionally, the request assumes IRS matching of student application data will reduce overawards of Pell Grants and save $638 million in 2003 and 2004.

- After a $100 million request in 2003, the President proposes no new funds for **Perkins Loans** in 2004. Perkins Loan Revolving Funds would continue to support over $1 billion in new loans each year as existing loans are repaid.

- The President followed through on his pledge to increase funding by 5 percent for **Historically Black Colleges and Universities** ($224 million), **Historically Black Graduate Institutions** ($53 million), and **Minority Serving Institutions** ($94 million).

Program Terminations in ED

- In order to offset a portion of the proposed increases in critical programs such as **Education for the Disadvantaged** and **IDEA**, the President proposes to terminate 45 ED programs that would free $1.5 billion (based on 2002 funding levels). Many of these programs have missions that are duplicated in other programs or have been found to be ineffective through OMB's Program Assessment Rating Tool (PART). Included in the terminations are: **Comprehensive School Reform** ($235 million), **Perkins Loans Capital Contributions** ($100 million), and **Rural Education** ($163 million). Of the 45 programs suggested for termination, 38 were also proposed for elimination in the 2003 request.

Departments of Labor and Health and Human Services

- The Department of Labor's request includes $5.8 billion for **Training and Employment Services**, a $700 million (13.7 percent) increase over the 2003 request of $5.1 billion.

- The administration will use the reauthorization of the **Workforce Investment Act** (WIA) to consolidate programs and eliminate duplicity. The President proposes consolidating the WIA adults, dislocated worker and Wagner-Peyser State Grant Programs into a single $3.1 billion grant. This change addresses program duplicity and increases effectiveness—identified previously as weaknesses by OMB's ratings under Program Assessment Rating Tools.

- As part of his Economic Growth Package, the President also proposes in 2004 including $2 billion for the establishment of **Personal Re-employment Accounts** ($3.6 billion over two years), which will allow approximately 1.2 million displaced workers to receive up to $3,000 in an account for job training related expenses, such as child care and transportation. Claimants re-employed within 13 weeks would be able to keep any remaining account money as a bonus.

- The Department of Health and Human Services' budget request includes $6.8 billion for **Head Start**, a $148 million (2 percent) increase over the 2003 request.

Performance-Based Government

- ED has made progress on all five of the President's Management Agenda initiatives, earning a green for progress in each area. However, for all except E-Government, ED continues to have red status. ED's E-Government rating improved from red to yellow.

## FUNCTION 550: HEALTH

This function covers all federal spending on health except that for Medicare, military health, and veterans health. The major programs include Medicaid, the State Children's Health Insurance Program (S-CHIP), health benefits for federal retirees, the Food and Drug Administration, the Health Resources and Services Administration, the Indian Health Service, the Centers for Disease Control and Prevention, the National Institutes of Health, the Substance Abuse and Mental Health Services Administration, and the Occupational Safety and Health Administration.

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 206.1 | 228.6 | 247.3 | 267.9 | 292.0 | 313.2 | 336.2 |
| Outlays | 196.5 | 223.1 | 246.6 | 267.0 | 291.2 | 311.7 | 334.7 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 206.1 | 224.3 | 238.5 | 257.3 | 276.4 | 297.1 | 318.7 |
| Outlays | 196.5 | 221.9 | 239.2 | 256.9 | 275.8 | 295.6 | 317.3 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | 4.4 | 8.7 | 10.5 | 15.6 | 16.1 | 17.5 |
| Outlays | --- | 1.2 | 7.4 | 10.1 | 15.4 | 16.1 | 17.4 |

### Mandatory Spending

Medicaid/State Children's Health Insurance Program (SCHIP)

- Under current law, the Federal portion of **Medicaid outlays** is expected to total about $177 billion in 2004. This is a $14.4 billion - 8.9 percent - increase over projected 2003 spending which is expected to be 10.1 percent greater than outlays in 2002. Prescription drug spending, nursing homes, community-based long-term care costs, and payments to health plans are expected to be significant contributors to this expenditure growth.

- The Administration proposes a new **Medicaid and SCHIP** program option, under which states may take their Medicaid and SCHIP funding in a single Federal payment. The creation of the **State HealthCare Partnership Allotments** would replace the current entitlement funding structure with two allocations –one for acute care and one for long-term care - that will enhance state flexibility and promote innovation. The program is budget neutral over 10 years.

- This initiative builds on a proposal released in August 2001, when President Bush announced the **Health Insurance Flexibility and Accountability (HIFA)** demonstration.

This program allows states to apply for a waiver under section 1115 of the Social Security Act, which allows states to expand health care coverage to low-income, uninsured populations and to test innovative approaches in health care service delivery. HIFA enables States to use Medicaid and SCHIP funds in concert with private insurance options to expand coverage to low-income, uninsured individuals, with a focus on those with incomes at or below 200 percent of poverty.

- The budget also includes a proposal to extend the availability of **expiring SCHIP allotments** until 2004. According to current estimates, approximately $830 million in unused SCHIP funds will return to the Treasury at the end of 2003. The budget proposal would extend the availability of 2000 funds for one year, through 2004. This proposal costs $35 million in 2004, and $565 million over 10 years.

- The President's budget proposes savings of $800 million in 2004 and $13.2 billion over 10 years by changing the way the **Medicaid drug rebate** is calculated. Currently manufacturers are required to report to CMS their best price for a medication. CMS then sets rebates equal to the difference between the Average Manufacturer's Price (AMP), which is a number caluculated quarterly at CMS, and the manufacturer's best price for that medication. The President proposes to eliminate the best price component and increase discounts taken off of the AMP.

- The budget includes a **Pharmacy Plus program for Medicaid**. Under this waiver, states may develop programs to help senior citizens and people with disabilities who need assistance with prescription drug purchases. This is targeted to those with incomes less than 200 percent of poverty who are not otherwise eligible for Medicaid.

<u>Other Agencies</u>

- The total funding level reflects the creation of **Project BioShield**, a comprehensive effort to develop effective countermeasures against biological and other dangerous agents. This cooperative effort will be a joint activity of the new Department of Homeland Security and the Department of Health and Human Services through CDC, FDA, NIH, and other agencies. Over the next 10 years, almost $6 billion will be available to purchase new countermeasures for smallpox, anthrax, and botulism toxin. Additional funds will be available to produce and purchase countermeasures for other dangerous agents, such as Ebola and plague, once safe and effective treatments are developed.

**Discretionary Spending**

Centers for Disease Control (CDC) and Prevention

- The President's budget includes $1.1 billion for **bioterrorism preparedness** in 2004, the same level as requested in the 2003 budget. CDC will direct $940 million of this to improving state and local preparedness, $158 million to improve CDC's internal preparedness and response functions, and $18 million will continue to be directed to anthrax research.

National Institutes of Health

- In 2003, the President's budget completed the planned five-year **doubling of the NIH budget** from $13.7 billion in1998 to $27.3 billion in 2003. As a result of converting approximately $1.4 billion from one-time non-recurring costs in 2003 for facilities construction and anthrax vaccine procurement, NIH research programs and support will have a increase of over $1.9 billion or 7.5 percent in 2004.

Health Tax Credits

- The President's budget again proposes a **health care credit of up to $3,000 per family** to make health insurance coverage more affordable for uninsured low- and middle-income Americans. The credit provides a new commitment of $89 billion to reduce the number of persons who go without insurance by 4 million over 10 years.

Performance-Based Government

- The Department of Health and Human Services (HHS) has established internal accountability standards to strengthen management agenda efforts. Overall, HHS has made progress in the implementation of the President's Management Agenda initiatives, but remains a long way from reaching the goals. HHS received half green lights and half yellow lights in the five categories of the agenda reflecting the *progress* it has made over the past year but the agency received red lights for the current status of the five categories.

- HHS had 31 programs evaluated under the Program Assessment Rating Tool (PART) system. These programs have demonstrated an adequate to moderately effective rating.

# FUNCTION 570: MEDICARE

This function includes only the Medicare program which serves 41 million eligible individuals. Medicare pays for medical services for people age 65 and older and people under age 65 who are disabled or suffer from end-stage renal disease. Medicare is administered by the Center for Medicare and Medicaid Services (CMS), part of the Department of Health and Human Services.

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 234.4 | 245.0 | 258.6 | 275.9 | 305.3 | 327.2 | 349.4 |
| Outlays | 230.9 | 244.7 | 258.9 | 275.9 | 304.9 | 327.4 | 349.4 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 234.4 | 245.0 | 252.7 | 266.0 | 272.5 | 289.4 | 306.8 |
| Outlays | 230.9 | 244.6 | 252.9 | 265.9 | 272.1 | 289.7 | 306.7 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | 0.0 | 6.0 | 9.9 | 32.8 | 37.7 | 42.6 |
| Outlays | --- | 0.1 | 6.0 | 9.9 | 32.8 | 37.7 | 42.6 |

Baseline Spending

- Between 2003 and 2008, **Medicare gross benefit outlays** are projected to increase from $279 billion in 2004 to $480 billion in 2013 - an average annual rate of 7.4 percent.

- The 2002 Medicare Board of Trustees report estimated that the **Medicare Hospital Insurance trust fund** would remain solvent until 2030 under current law, although spending will begin to exceed tax receipts by 2016.

- The long term numbers show the 75-year **unfunded liability** for Medicare at $13.3 trillion.

The President's Medicare Modernization and Prescription Drug Proposals

- The President's budget proposes to **modernize Medicare** and dedicates $6 billion in 2004, $130 billion over five years, and $400 billion over ten years to this effort. The President proposes to provide access to prescription drug coverage for seniors, enhance Medicare+Choice, modernize Fee-for-Service and make other improvements to the system.

- The President's **drug benefit** would protect all beneficiaries against high drug expenditures and would provide additional assistance to low-income beneficiaries. It would offer beneficiaries a choice of plans and would support the continuation of the coverage that many beneficiaries already receive through employer-sponsored and private health insurance plans. The Administration also proposes improvements to the Medicare system such as: linking Medicare+Choice payments to the cost of providing health care services; the addition of preventive benefits; modernization of Fee-for-Service through changes in cost-sharing and the addition of catastrophic coverage; and adjusting the formula for provider payments to use actual data instead of estimates.

## FUNCTION 600: INCOME SECURITY

The income security function contains the: 1) major cash and in-kind means-tested entitlements; 2) general retirement, disability and pension programs excluding Social Security and Veteran's compensation programs; 3) federal and military retirement programs; 4) unemployment compensation; 5) low-income housing programs; and 6) other low-income support programs.

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 309.7 | 326.5 | 322.9 | 337.7 | 346.2 | 354.0 | 369.9 |
| Outlays | 312.5 | 330.1 | 325.0 | 340.9 | 349.4 | 356.7 | 369.1 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 309.7 | 324.4 | 323.5 | 333.6 | 342.5 | 350.5 | 366.3 |
| Outlays | 312.5 | 329.8 | 322.8 | 336.4 | 344.9 | 352.3 | 364.8 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | 2.1 | -0.6 | 4.1 | 3.7 | 3.5 | 3.6 |
| Outlays | --- | 0.3 | 2.2 | 4.6 | 4.5 | 4.4 | 4.3 |

The President's 2004 budget would reduce BA for income security by $3.6 billion (or 1.1 percent) compared to the 2003 request – for a total request of $322.9 billion. The budget includes funding for a number of programs with expiring authorizations this year, many targeted to low-income families, including Temporary Assistance to Needy Families (TANF), Child Nutrition and WIC Programs. The President also proposes a new child support enforcement program to assist states with collection efforts. This year the Administration is also re-proposing a broad reform of the Unemployment Insurance system and the Federal Employees' Compensation Act.

Pension Protections

- The President renamed the Pension and Welfare Benefits Administration to the **Employee Benefits Security Administration (EBSA)** to better highlight its responsibilities. The budget provides for a total of $129 million in funding—a $12 million increase, or 10 percent. These funds will be used as outreach to the employer community to educate them on recent changes in pension law. The Administration estimates it can restore or recover $69 million in pension plan assets with these funds.

Child Support Enforcement

- The President proposes significant reforms in the collection of child support, which will result in increased collections. These proposals will require a total 10-year investment of $218 million and in return will offer $7.5 billion in increased child support payments for families over 10 years. Specifically, the proposal will require states to intercept gaming proceeds for child support collection, lower the threshold for denying passports to non-custodial parents owing overdue child support from $5,000 to $2,500, provide for garnishment of Longshore and Harbor Worker's Compensation Act Benefits, and withhold a limited amount of OASDI payments from beneficiaries. Finally, States will be required to charge a $25 annual fee to families who have never received AFDC or TANF assistance and receive child support collections through the **Child Support Enforcement Program**.

<u>Temporary Assistance to Needy Families (TANF)</u>

- The President's budget re-proposes the President's 2003 plan to build on the success of the welfare reform and reauthorize the **Temporary Assistance for Needy Families** program. The proposal includes five years of funding at current levels despite a reduction in rolls; Supplemental Grants at the 2001 level of $319 million; restoring the allowable **Social Services Block Grant (**SSBG) transfer to 10 percent (current 4.25 percent) as well as renewal of the $2 billion Contingency Fund with a modified maintenance of effort requirement; up to $300 million would be available to primarily promote healthy marriages, of which $100 million is earmarked to this goal. In addition, the President proposes to allow states to use TANF carryover funds for non-cash assistance.

<u>Nutrition Assistance</u>

- Total spending, including discretionary and mandatory spending, for the domestic nutrition assistance program totals $45.6 billion—a 6 percent increase over the FY2003 total. This funds the **Food Stamp and Child Nutrition Programs**, as well as **WIC**. Food Stamp funding represents the largest component, totaling $27.7 billion. The Administration requests that **Child Nutrition and Women, Infants, and Children (WIC)** program reauthorization extend from 2004 until 2008. The President's budget increases WIC funding to $4.8 billion, or 1 percent. This program serves 7.8 million people monthly.

<u>Supplemental Security Income</u>

- This year the President is proposing to extend pre-effectuation review provisions already in place for Social Security disability claims to **Supplemental Security Income (SSI)** adult disability and blindness cases. This provision will improve the accuracy of initial decisions and is estimated to result in savings of $91 million over five years.

<u>Federal Employees</u>

- The budget re-proposes reforms to the **Federal Employees' Compensation Act (FECA),** the program that provides benefits to federal employees who become disabled on the job. Specifically, the budget proposes permitting DOL to charge other federal agencies for administrative costs associated with employee injury and illness claims. These and other legislative changes would save taxpayers $480 million over ten years.

Unemployment Insurance

- Outlays for **Unemployment Insurance (UI)** have increased with the unemployment rate. The Administration estimates the Insured Unemployment Rate for FY2004 will be 2.4 percent, and that $39.8 billion will be paid from the UI trust fund—a decrease of $13.3 billion. The average weekly benefit will be $268, and the average duration 15 weeks.

- The President also proposes giving states control over UI administrative funding and eliminating the 0.2 percent Federal Unemployment Tax Act (FUTA) surtax in 2005 and make additional rate cuts which result in a net FUTA tax rate of 0.2 percent in 2009. These long-term reforms would strengthen the assistance states could provide while retaining a safety net.

Housing Assistance

- The President proposes to reduce discretionary housing assistance by $1.6 billion in BA compared to the baseline in 2004. Most of the reduction – about $0.5 billion – would occur in the new construction commitments for **housing for the elderly** (such proposals, common by several past Administrations, usually have been ignored by the Congress).

- Another $0.3 billion reduction (also proposed in previous budgets) in 2004 would occur in the **public housing capital and operating funds**.

- The budget proposes to discontinue the appropriation (currently provided for 2003 in the continuing resolution) for the **revitalization of severely distressed public housing**, which amounts to $0.6 billion compared to the 2004 baseline.

- Increases requested for the **HOME investment partnership program** ($0.4 billion) and **homeless assistance grants** ($0.4 billion) are offset by a $1.1 billion reduction compared to the baseline that is masked by a proposed restructuring of the accounts providing **section 8 rental assistance**.

Performance-Based Government

The President's measurement standards for agency progress on government-wide initiatives shows mixed results for the Departments of Labor (DOL) and Housing and Urban Development (HUD). HUD earned red light status marks in all categories: Human Capital, Competitive Sourcing, Financial Performance, E-government and Budget and Performance Integration. Though the administration commends HUD's progress with improved marks of yellow and green, improvements have not reached targeted levels.  Nine DOL programs were reviewed, and scores ranged widely.

Overall, DOL earned yellow status marks, and green progress scores—with the exception of competitive sourcing, which red and yellow scores, respectively.

# FUNCTION 650: SOCIAL SECURITY

Social Security is the largest spending program in the budget, with outlays of $460 billion in 2002. Benefits are paid from the Social Security trust funds and financed by payroll taxes. For purposes of the Budget Enforcement Act, the Social Security trust funds are off-budget and do not count toward surplus projections. However, the administrative expenses of the Social Security Administration are within the caps on overall discretionary spending.

($ Billions)

| | 2002 Actuals | 2003 '03 Request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 462.4 | 479.9 | 498.8 | 517.5 | 539.7 | 565.9 | 594.6 |
| Outlays | 456.4 | 478.5 | 497.3 | 516.0 | 537.6 | 563.2 | 591.8 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 462.4 | 479.6 | 498.2 | 516.9 | 539.1 | 565.3 | 594.0 |
| Outlays | 456.4 | 478.2 | 496.6 | 515.3 | 537.1 | 562.9 | 591.5 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | 0.4 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 |
| Outlays | --- | 0.2 | 0.7 | 0.6 | 0.4 | 0.3 | 0.3 |

## Baseline Spending

Under current law, Social Security spending increases an average of 4.3 percent annually over the 2004 to 2008 period.

- The budget assumes a cost-of-living adjustment (COLA) for Social Security benefits of 2 percent in January 2004. This is more than the January 2003 COLA of 1.8 percent and less than the January 2002 COLA of 2.6 percent. The annual COLA for Social Security is automatically adjusted based on the rise in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter the previous year to the corresponding period in the current year.

- According to the 2002 Trustees' Report, the Social Security trust funds are projected to be depleted in 2041, and Social Security revenues will fall short of spending beginning in 2017.

## Administrative Expenses

- The budget requests a 6.2 percent increase in funding for the administrative expenses of the **Social Security Administration (SSA)**, from $8.0 billion in 2003 to $8.5 billion in 2004. (Only $4.2 billion of those expenses appear in function 650, most of the remainder is in function 600). Administrative expenses amount to 1.7 percent of SSA's total outlays and enable the agency to pay around $42 billion in monthly benefits to more than 50 million people.

Social Security Reform

- The President's 2004 budget makes clear that because Social Security is in deep financial trouble, reform is needed to address the program's $4.6 trillion unfunded liability. The 2004 budget makes the point that the estimated cost of a proposed reform over the first five or ten years is less important than if it reduces the long-term unfunded liability.

- According to the 2002 Trustees report, if the system is not reformed, expenditures for benefits will exceed incoming revenues by 2017, and the trust fund will be bankrupt in 2041. After 2041, payroll taxes will cover only 73 percent of promised benefits, an amount that is expected to decline to 66 percent in 2076.

Performance-Based Government

The President's scorecard for measuring agency progress on five government-wide initiatives show that SSA could improve Competitive Sourcing. The SSA did make significant improvement with Budget/Performance Integration since last year's budget submission. The budget indicates there is room for the SSA to improve in the Human Capital, Financial Performance and E-Government categories.

## FUNCTION 700: VETERANS BENEFITS AND SERVICES

This function includes all programs directed toward veterans of the armed forces and the family members of living veterans and survivors of deceased veterans. Income security needs of disabled veterans, indigent veterans, and survivors are addressed through compensation benefits, pensions, and life insurance programs. Major education, training, and rehabilitation and readjustment programs include the Montgomery GI Bill, the Veterans Educational Assistance Program, and the Vocational Rehabilitation and Counseling program. Veterans are also able to receive guarantees on home loans. Roughly half of all spending on veterans is for the Veterans Health Administration.

($ Billions)

| | 2002 Actuals | 2003 '03 Request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 52.1 | 57.7 | 61.6 | 64.8 | 66.9 | 69.0 | 71.3 |
| Outlays | 51.0 | 57.1 | 62.0 | 67.0 | 66.6 | 65.9 | 70.9 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 52.1 | 56.5 | 58.0 | 61.5 | 64.0 | 66.4 | 68.9 |
| Outlays | 51.0 | 56.1 | 58.6 | 63.8 | 63.7 | 63.3 | 68.5 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | — | 1.2 | 3.6 | 3.3 | 2.9 | 2.6 | 2.4 |
| Outlays | --- | 1.0 | 3.4 | 3.3 | 2.9 | 2.6 | 2.4 |

The 2004 budget requests $61.6 billion in total budget authority for veterans affairs, which is a 6.7 percent increase over the President's 2003 requested level of $57.7 billion. The budget requests $28.2 billion in discretionary budget authority in 2004, primarily to operate the medical care system. The remainder of the spending request is for entitlement programs, including Compensation, Pension, and Readjustment and Education programs.

Discretionary Spending

- The Administration proposes $27.5 billion in funding for **VA medical programs.** This includes $25.4 billion in budget authority and $2.1 billion in offsetting receipts from the **Medical Care Collections Fund (MCCF)**. This is a increase of 12.7 percent, or $3.1 billion, over the President's 2003 requested level of $24.4 billion. These resources pay for medical care in 163 VA hospitals, 137 nursing homes, 850 ambulatory care and community-based outpatient clinics and 43 domiciliaries.

- The average daily census of patients in all VA inpatient facilities, including acute care hospitals, nursing home and residential care, is estimated to increase in 2004, from 60,553 average daily patients in 2003 to an estimated 62,675 average daily patients -- a 3.5 percent increase.

- The President's request also includes $2.7 billion in 2004 for **other discretionary programs**, which include education, training, rehabilitation, construction, medical research, housing and national cemeteries, an increase of 4.3 percent or $115 million over the President's 2003 requested level.

- The President's budget assumes the continuation the VA Secretary's proposal to halt enrollments of Priority 8 veterans. The budget includes a proposal to establish a new $250 enrollment fee for priority level 7 and 8 veterans. Priority 7 and 8 veterans are non-service connected disabled and have a higher income than other veterans using the VA hospitals.

- The President's budget also includes suggested appropriations language to increase the insurance and prescription drug co-payments for Priority 7 and 8 veterans to $20 and $15 respectively. In addition, the budget includes a proposal to eliminate both the insurance and prescription drug co-payment for priority level 2 through 5 veterans.

Mandatory Spending

- The President proposes a 2 percent cost of living adjustment for **Compensation** benefits. After the adjustment, total mandatory spending is projected to be $33.4 billion in 2004, an increase of 3.4 percent or $1.1 billion over the President's 2003 requested level. Mandatory spending includes funding for Veterans Compensation, Pensions, insurance funds and readjustment programs. An average of 2.5 million veterans and 0.3 million survivors receive disability Compensation or Pension benefits.

- The President's budget proposes legislation to restore the original interpretation of section 1110 of title 38 U.S. Code. This section prohibits compensation for alcohol or drug abuse which arises secondarily from a service connected disability. In February 2001 the U.S. Court of Appeals decided that section 1110 did not preclude compensation for alcohol or drug abuse arising secondarily from a service connected disability. If this legislation were enacted it would save $124 million in 2004.

Veterans Account Structure

As in previous years, OMB is proposing to realign VA accounts so that they more closely match their business lines. The new accounts they propose are Compensation, Pension, Medical Care, Burial benefits, Education, Vocational Rehabilitation, Housing and Medical Research. Major and minor construction costs will be folded into the programs that it supports, for example, if a new VA hospital is built then those costs will be shown within the medical care account.

Performance-Based Government

The President's new scorecard for measuring agency progress on five governmentwide initiatives shows room for improvement for the VA. The Department of Veterans Affairs earned red lights in the Human Capital, Competitive Sourcing and Financial Perfomance categories of the President’s management initiatives. However, the VA moved up from red to yellow lights in E-government and Budget and Performance Integration. This is an improvement over last year when the VA received red lights in all five categories.

## FUNCTION 750: ADMINISTRATION OF JUSTICE

This function funds federal law enforcement activities, including criminal investigations by the Federal Bureau of Investigation and the Drug Enforcement Agency, border enforcement and the control of illegal immigration by the Immigration and Naturalization Service. Other program activities in this function include, among others, (1) civil rights enforcement and prosecution, (2) federal, block, categorical, and formula grant programs, (3) prison construction and operation, and (4) the federal Judiciary.

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 36.2 | 36.0 | 38.8 | 37.0 | 37.7 | 38.5 | 39.4 |
| Outlays | 34.3 | 36.1 | 39.4 | 38.9 | 39.5 | 37.9 | 38.7 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 36.2 | 37.2 | 40.6 | 37.7 | 38.6 | 39.6 | 40.7 |
| Outlays | 34.2 | 35.1 | 39.9 | 39.8 | 40.0 | 39.0 | 40.0 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | -1.2 | -1.8 | -0.6 | -0.9 | -1.1 | -1.3 |
| Outlays | --- | 1.1 | -0.4 | -0.8 | -0.6 | -1.1 | -1.3 |

The President's 2004 budget increases BA for the administration of justice by $2.8 billion, or 7.7 percent above the 2003 level. The President is recommending the following major program changes:

### Department of Justice (DOJ)

- The proposed budget for the Department of Justice in 2004 is $18.7 billion in discretionary budget authority. This represents an increase of $1.7 billion, a 10 percent increase over the 2003 request. These figures do not include funding for the activities transferred to the Department of Homeland Security. These activities include those performed by the Immigration and Naturalization Service (INS), the FBI's National Infrastructure Protection Center, and other smaller homeland security functions. It must also be noted that once a delay in spending $1.1 billion from the Crime Victims Fund is accounted for in the year 2004, the total proposed for the DOJ drops from $18.7 billion to 17.7 billion. Consequently, this changes the increase from $1.7 billion to $649 million or a 3.8 percent increase over the 2003 level.

- For the **Federal Bureau of Investigation (FBI)** the budget requests a total of $4.6 billion, an increase of $399 million or 9 percent from 2003. This increase would be primarily used for intelligence analysts, surveillance personnel, and field investigators, including cybercrime investigators, as well as to support FBI-led interagency task forces.

- The President proposes a $13 million increase for the **Drug Enforcement Agency (DEA)**, a 1 percent increase over the previous year. However, the 2004 budget does consolidate the Treasury, Coast Guard, and Justice Organized Crime Drug Enforcement Task Forces Program within the DOJ and increases the combined funding for these programs by 15 percent, or $71 million, over the combined funding level in 2003.

- **State and Local Assistance Programs**: In 2003, the President cited a strong desire to reduce the amount of project earmarking created by many of the grant programs run by the DOJ under the state and local assistance category. The President proposes the elimination of the Byrne grants, local law enforcement block grants, and the juvenile accountability block grants. In their place, the President continues to fund the **Justice Assistance Grants** at $600 million with the hope that the funds will be awarded on a more competitive basis with a strong emphasis on performance accountability.

- For the **Community Oriented Policing Services (COPS)** program the President's budget requests $164 million for continuation of the COPS grants program and administrative expenses. However, citing the completion of the original program mission to hire or redeploy 100,000 police officers by the year 2000 and the inconclusiveness of the program's impact on crime, the President seeks no additional funds for the COPS hiring grants.

**Department of Homeland Security (DHS)**

- In order to better secure our nation's borders and enforce our immigration laws, the DHS will create two operating agencies by merging four existing organizations. They are: the U.S. Customs Service, the Agricultural Quarantine and Inspection Program (AQI), and the Immigration and Naturalization Services' Inspection program and Border Patrol.

    - The **Bureau of Customs and Border Protection** will consist primarily of Border Patrol officers and inspectors from INS, Customs, and AQI, and the main focus will be border security. The President's budget proposes $5.6 billion in discretionary funds in 2004 for these activities, an increase of $183 million or 3 percent over 2003.

    - The **Bureau of Immigration and Customs Enforcement** will be made up of investigative and other enforcement personnel from the Customs Service, INS, and the Federal Protective Service and their focus will be the enforcement of immigration and customs laws. For 2004, the budget proposes $2.5 billion in discretionary funds, an increase of $113 million or 4.8 percent over 2003.

**Performance Based Government**

- Overall, the Department of Justice (DOJ) has made good progress in the implementation of the President's Management Agenda initiatives, but remains a long way from reaching the goals. The DOJ received green lights in each of the five categories of the agenda reflecting the *progress* it has made over the past year, but, as in the previous year, the agency did not earn any green lights for the current status of the five categories.

- For the Department of Homeland Security (DHS), its evaluation reflects the known condition of several of the large components being transferred to the department. The DHS faces many challenges on the management front and during the next two years will focus on near-term challenges such as human capital and specifically targeting its budget resources to efforts that meet its central mission.

- Both DOJ and DHS had programs evaluated under the Program Assessment Rating Tool (PART) system. While the DHS programs will have to be further evaluated over the next year, the programs within DOJ provided a wide variance of results that the President's budget does take into account with its funding proposals. One consistent theme, however, was the lack of long-term, outcome-oriented goals.

## FUNCTION 800: GENERAL GOVERNMENT

Function 800 includes the fiscal operations of the Department of Treasury (including the IRS's tax collection activities), the Legislative Branch, the Executive Office of the President, personnel and property management, and general purpose fiscal assistance to states, localities and U.S. territories.

($ Billions)

| | 2002 Actuals | 2003 '03 Request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | 18.4 | 18.3 | 20.2 | 22.1 | 20.7 | 21.2 | 21.6 |
| Outlays | 17.4 | 19.0 | 20.5 | 22.0 | 20.5 | 21.0 | 21.5 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | 18.4 | 16.6 | 17.1 | 17.8 | 18.3 | 18.8 | 19.4 |
| Outlays | 17.4 | 17.5 | 17.3 | 17.5 | 17.9 | 18.5 | 19.2 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | — | 1.7 | 3.1 | 4.3 | 2.4 | 2.4 | 2.2 |
| Outlays | — | 1.5 | 3.2 | 4.6 | 2.6 | 2.5 | 2.2 |

Most of the spending for this function is for discretionary programs. The President proposes to increase discretionary funding from the $16.3 billion request in 2003 to $17.8 billion in 2004, an 8.8 percent increase in budget authority. The President is recommending the following major program changes:

Discretionary Spending

- President Bush is requesting $10.4 billion for the **Internal Revenue Service (IRS)**, an increase of $520 million from 2003. Of that increase, 48 percent is directed into Tax Law Enforcement (TLE), 22 percent toward Processing Assistance and Management (PAM), and 20 percent for reducing fraud in the Earned Income Tax Credit (EITC) program.

- The budget proposes to consolidate the individual appropriation accounts of the **Executive Office of the President (EXOP)** into one account. As part of this request, the President seeks the authority to transfer 10 percent of the EXOP's budget authority among several accounts: the White House, OMB, USTR, and others.

- The President assumes a 2.0 percent pay raise for civilian employees in 2004.

- The budget includes $500 million to support the establishment of a Human Capital Performance Fund (HCPF) at the **Office of Personnel Management.** The new fund will provide additional pay to federal employees based on their performance. The new approach will complement the existing General Schedule (GS) system. Performance-based awards would be counted for retirement and other benefit calculations.

- The President requests $500 million for the Election Assistance Commission in 2004, a 25 percent increase above the amount the President requested last year for 2003. The funds would be issued to states in the form of grants to purchase modern voting equipment.

- The budget proposes to freeze funding for the High Intensity Drug Traficking Areas (HIDTA) at $206 million.

- The Administration's budget increases funding in 2004 for the District of Columbia by roughly $40 million or 10 percent above the President's 2003 request. Funding for the Anacostia Trailwalk and Sewer Overflow plan accounts for the bulk of the increase. In addition, the President recommends that District be permitted to spend local funds without prior congressional approval.

Mandatory proposals

- In 2005, $1.2 billion would be paid to the State of Alaska under the Administration's proposal to open the Arctic National Wildlife Refuge (ANWR) for oil and gas leasing. The receipts portion appears in Function 950 - Offsetting Receipts.

Performance-Based Government

- Reflecting the analysis conducted through the Program Assessment Rating Tool (PART), OMB determined that the IRS's EITC intitative was ineffective in reducing erroneous payments. As such, the Administration requested a $100 million increase to enhance IRS's efforts. The bulk of the request will be used to develop information technology capable of transforming current business practices. The remainder is allocated for the purpose of identifying and certifying certain claimants.

- OMB also determined through PART that IRS collection efforts do not efficiently utilize its available resources. In response, the President proposes legislation that would permit the IRS to enlist the help of private collection agencies to obtain payment from delinquent taxpayers.

## FUNCTION 920: ALLOWANCES

This function usually displays the budgetary effects of proposals that cannot be easily distributed across other budget functions. In past years, Function 920 has included total savings or costs from proposals associated with emergency spending, proposals that would skew totals in other budget functions, or proposals for which it is not currently known how it would affect various functions.

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | --- | 2.4 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 |
| Outlays | --- | -0.4 | -0.3 | -1.3 | -1.1 | 0.2 | 0.3 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | --- | --- | --- | -1.3 | -1.3 | --- | --- |
| Outlays | --- | --- | --- | -1.3 | -1.3 | --- | --- |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | 2.4 | -0.3 | 1.0 | 1.0 | -0.3 | -0.3 |
| Outlays | --- | -0.4 | -0.3 | -0.1 | 0.1 | 0.2 | 0.3 |

The Administration's request reflects three adjustments to its overall budget.

- The summary tables in the President's budget (table S-4) claim that the requested discretionary total for 2003 (recall that 11 of 13 appropriation bills are still not enacted) is $751.825 billion – called the "Presidentially approved spending level," defined as the "House passed budget resolution [$750.1 billion], adjusted for mass transit [$1.445 billion]" (and, though unmentioned, also adjusted for certain unused offsets in agriculture programs [$0.280 billion]). Unfortunately, OMB's data base of all budget accounts does not reflect this total. While this analysis usually employs only the data provided in OMB's data base, which is supposed to be definitive, the table above adds (to the data provided in the data base) $2.8 billion in BA and outlays in the President's Budget line for 2003 to produce the totals printed in the President's summary tables.

- Respecting the separation of powers, OMB simply attaches – unreviewed and unaltered – the budget requests of the **legislative and judicial branches** of government to that of the executive branch. Nonetheless, OMB has also realized for more than a decade that the requests of the other two branches typically reflect unrealistically high rates of growth that are seldom, if ever, borne out by actual appropriations action. So OMB makes an adjustment elsewhere in the budget – function 920 – to lower the growth in the budget requests of the legislative and judicial branches to rates closer to historical levels, and to affect discretionary totals similarly. This amounts to a total downward adjustment of about $0.4 billion in 2003 and about $0.3 billion annually thereafter compared to the requests as submitted by the two other branches.

- The budget proposes a **spectrum relocation fund (mandatory spending)** to allow agencies to spend resources in 2005 and 2006 – set aside from $2.5 billion in spectrum auction receipts – to cover their expense for new equipment associated with relocating to alternate frequencies. This is designed to encourage them to make more efficient use of the electromagnetic spectrum, which will free up more spectrum for auction.

## FUNCTION 950: UNDISTRIBUTED OFFSETTING RECEIPTS

This function records offsetting receipts (receipts, not federal revenues or taxes, that the budget shows as offsets to spending programs) that are too large to record in other budget functions. Such receipts are either intrabudgetary (a payment from one federal agency to another, such as agency payments to the retirement trust funds) or proprietary (a payment from the public for some type of business transaction with the government). The main types of receipts recorded as "undistributed" in this function are: the payments federal agencies make to retirement trust funds for their employees, payments made by companies for the right to explore and produce oil and gas on the Outer Continental Shelf, and payments by those who bid for the right to buy or use the public property or resources, such as the electromagnetic spectrum.

($ Billions)

| | 2002 Actuals | 2003 '03 request | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Budget authority | -47.8 | -50.3 | -53.7 | -67.6 | -68.3 | -66.0 | -68.5 |
| Outlays | -47.8 | -50.3 | -53.7 | -67.6 | -68.3 | -66.0 | -68.5 |
| **OMB Baseline**: | | | | | | | |
| Budget authority | -47.8 | -53.8 | -56.3 | -68.0 | -71.2 | -70.3 | -73.3 |
| Outlays | -47.8 | -53.8 | -56.3 | -68.0 | -71.2 | -70.3 | -73.3 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Budget authority | --- | 3.5 | 2.7 | 0.4 | 2.8 | 4.3 | 4.8 |
| Outlays | --- | 3.5 | 2.7 | 0.4 | 2.8 | 4.3 | 4.8 |

The President's 2004 budget would reduce offsetting receipts in 2003 by $3.5 billion (or 6.5 percent) from the baseline level. Over the 2004-2008 period, the President's proposals in this function would reduce cumulative offsetting receipts by about 4.4 percent. Most of the change would stem from the Administration's proposal to reduce Postal Service payments to the retirement trust fund.

- Last fall, OMB and OPM discovered that under a statutory formula in place since 1970, the **Postal Service** is on a pace to overpay what it owes to OPM to cover the unfunded liability of pension benefits of postal employees hired under the Civil Service Retirement System (CSRS – those hired before 1984). Therefore, in November, the Administration sent to the Congress legislation that would reduce the amount the Postal Service is scheduled to pay to CSRS under current law. The President's budget reflects this legislation, which would reduce receipts (thereby increasing outlays)to the CSRS fund by $3.5 billion in 2003 and by an average of $3 billion per year over the subsequent five years. (See Function 370 for discussion of effect on Postal Service.) On January 27, 2003, CBO issued an analysis of the proposed legislation, estimating that it would increase the deficit by $3.5 billion in 2003 and by an average of $3 billion annually over 2004-2008. CBO also pointed out that the legislation ignores the unfunded liability that the Postal Service owes for the future health benefits of all of its employees when they retire. The annual cost of covering this unfunded liability for health benefits would significantly exceed the "savings" the Administration is proposing to allow the Postal Service to keep through this legislation.

- The authority under current law (enacted in 1993) for the **Federal Communications Commission to auction the right to use spectrum** under certain situations will expire at the end of 2007. The President's budget proposes extending the FCC's authority to auction spectrum, which would then make it possible to delay certain spectrum auctions already planned until a more auspicious time. OMB estimates this proposal would yield $2.2 billion in additional receipts over the next 10 years. Also, this proposal incorporates a new feature: giving the FCC the authority to set user fees on unauctioned spectrum licenses, using spectrum management and public interest principles. Such fees would begin in 2005 and would amount to $1.9 billion over ten years.

- The President again proposes a **new lease fee on spectrum used by commercial television broadcasters** for analog broadcasting. Initially, the fee would raise $0.5 billion annually, starting in 2007. The transition to digital television is supposed to be complete by 2006, but it is generally expected that incumbent broadcasters will take advantage of a provision in current law that allows them to retain their analog channel if less than 85 percent of households in the broadcast area cannot receive digital television by that year. The fee is supposed to give broadcasters an incentive not to retain the analog channel indefinitely so that the spectrum can be auctioned for a more valuable use.

- The President has again proposed opening the **Arctic National Wildlife Refuge (ANWR)** for oil and gas leasing. Doing so would provide the federal government with $2.4 billion in receipts from bonus bids in 2005. Of this total, the federal government would retain $1.2 billion, and Alaska would receive the other $1.2 billion (payment appears in function 800 – General Government).

# FEDERAL DEBT AND INTEREST COSTS

Outlays for net interest represent the gross cost of financing all federal government debt, less interest earned by federal government on its trust fund investments and loans to the public.

Net interest spending is not directly controllable by policy actions. Interest spending depends on the level of debt and on interest rates. Congress and the President control the level of debt through decisions about spending and taxation. Interest rates are determined by market forces and Federal Reserve policy.

**INTEREST COSTS AND THE PUBLIC DEBT**
($ Billions)

| | 2002 Actuals | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **Interest Outlays:** | | | | | | | |
| Interest on public debt (gross) | 332.5 | 328.3 | 352.3 | 392.9 | 427.6 | 459.2 | 491.6 |
| Interest rec'd by trust funds: | | | | | | | |
| Social Security | -76.8 | -83.6 | -88.7 | -96.8 | -106.1 | -117.0 | -129.3 |
| Other trust funds a/ | -76.5 | -73.9 | -75.5 | -78.2 | -81.7 | -85.5 | -89.5 |
| Other interest received b/ | -8.3 | -8.8 | -10.8 | -13.0 | -14.3 | -15.8 | -17.8 |
| Other investment income c/ | – | -0.6 | -0.9 | -1.0 | -1.0 | -1.0 | -1.0 |
| Net interest on public debt | 171.0 | 161.4 | 176.4 | 204.0 | 224.5 | 239.8 | 254.1 |
| **Debt Projections Based on President's Budget Proposals** | | | | | | | |
| **Federal Debt, End of Year:** | | | | | | | |
| Gross Federal Debt | 6,198 | 6,752 | 7,321 | 7,837 | 8,353 | 8,858 | 9,388 |
| Debt Held by Gov't. Accts. | 2,658 | 2,874 | 3,155 | 3,451 | 3,751 | 4,061 | 4,385 |
| Debt Held by the Public | 3,540 | 3,878 | 4,166 | 4,387 | 4,603 | 4,797 | 5,003 |
| Debt Subject to Limit d/ | 6,161 | 6,731 | 7,300 | 7,817 | 8,333 | 8,837 | 9,368 |
| Federal Debt as a Percentage of GDP: | | | | | | | |
| Gross Federal Debt | 60.0% | 62.8% | 64.8% | 65.9% | 66.9% | 67.6% | 68.3% |
| Debt Held by the Public | 34.2% | 36.1% | 36.9% | 36.9% | 36.9% | 36.6% | 36.4% |

a/ Includes Civil Service Retirement, Military Retirement, Medicare, unemployment insurance and the Highway and Airport and Airway trust funds.
b/ Primarily interest on loans to the public and to the RTC and Bank Insurance Fund.
c/ Includes income on investments of the reserves of the Railroad Retirement System, invested by the National Railroad Retirement Investment Trust.
d/ Differs from gross federal debt because most debt issued by agencies other than Treasury is excluded from the debt limit.

- The President's budget includes net interest outlays of $161.4 billion in 2003, rising to $254.1 billion by the year 2008. Net interest outlays currently make up 8.5 percent of total federal outlays; by 2008, under President Bush's budget, net interest outlays would make up 9.4 percent of total spending. By comparison, in the mid 1990's net interest outlays averaged 15.3 percent of total outlays.

- Relative to the OMB baseline, the President's budget increases spending on net interest by $102.3 billion over five years.

- Because the government had unified budget surpluses during the strong economic growth period of 1998-2001, it was able to reverse the long period of debt accumulation and pay down $453 billion of publicly held debt. Debt held by the public will temporarily have to increase due to unified budget deficits in the President's budget, rising from $3.6 trillion today to $5.0 trillion by the end of 2008.

- This level of debt is manageable and necessary. Debt rises slightly as a percentage of GDP in 2003 and 2004 and then levels off. By 2008, debt as a percentage of GDP is estimated to be down to 36.4 percent.

- The current statutory debt limit of $6.4 trillion has been in effect since mid-2002. Under the President's budget projections, debt subject to limit will equal $6.7 trillion at the end of fiscal year 2003.

- In December 2002, Deputy Treasury Secretary Dam wrote to Congress requesting an increase in the statutory debt ceiling, since Treasury was projecting that the limit might be reached by the latter half of February 2003. The President's budget does not change that projection. Treasury has asked Congress to act to increase the debt limit within the next month to allow the federal government to borrow cash to pay bills as they come due, and to invest the surpluses of trust funds and other government accounts (as required by law).

# REVENUES

Federal revenues are taxes and other collections from the public that result from the government's sovereign or governmental powers. This section provides an overview of President Bush's revenue proposals for the period 2004-2008. Revenues in the Bush budget are expected to grow by $685 billion, or 37 percent, between 2003 and 2008.

Over the five-year period 2004-2008, President Bush's budget recommends an economic growth package totaling $380 billion ($360 billion in tax relief and $20 billion in new spending). President Bush recommends other tax relief totaling $82 billion over five years in his 2004 budget.

OMB baseline revenues are projected to be 18 percent of GDP in 2004 and 18.9 percent of GDP in 2008. If President Bush's revenue proposals are adopted, taxes will average about 17.9 percent of GDP through the projection period, a level about equal to the long-term average of about 18 percent of GDP.

($ Billions)

| | 2002 Actuals | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget:** | | | | | | | |
| Revenues | 1853.2 | 1836.2 | 1922.0 | 2135.2 | 2263.2 | 2398.1 | 2520.9 |
| **OMB Baseline:** | | | | | | | |
| Revenues | 1853.2 | 1867.0 | 2031.1 | 2235.4 | 2352.4 | 2469.1 | 2592.6 |
| **Budget compared to OMB Baseline:** | | | | | | | |
| Revenues | --- | -30.8 | -109.1 | -100.2 | -89.2 | -71.0 | -71.7 |
| | | | (Percent of GDP) | | | | |
| **President's Budget:** | | | | | | | |
| Revenues | 17.9 | 17.1 | 17.0 | 18.0 | 18.1 | 18.3 | 18.3 |
| **OMB Baseline:** | | | | | | | |
| Revenues | 17.9 | 17.4 | 18.0 | 18.8 | 18.8 | 18.8 | 18.9 |

**The President proposes tax relief totaling $30.8 billion in 2003 and $441 billion over the next five years**.

The President proposes an **economic growth package** totaling $33 billion in 2003 and $380 billion over the next five years (including the reemployment account initiative):

- **Accelerated 10 Percent Bracket Expansion:** The expansion of the 10 percent tax bracket scheduled for 2008 is accelerated to 2003, and is indexed for inflation beginning in 2004. Under current law, the endpoint of the 10 percent tax bracket is scheduled to increase from

$12,000 of taxable income to $14,000 of taxable income for married couples (and from $6,000 to $7,000 for single taxpayers) in 2008. This proposal provides $30.8 billion in tax relief over 2004-2008.

- **Accelerated Reduction in Income Tax Rates:** The reductions in income tax rates in the higher tax brackets (above the 15 percent bracket) that are scheduled to go into effect in 2004 and 2006 are accelerated to 2003. This will result in new tax rates of 25%, 28%, 33% and 35% (from 27%, 30%, 35% and 38.6%). These rate reductions will benefit married couples with taxable income greater than $47,450 and single taxpayers with income greater than $28,400. This proposal provides $58.1 billion in tax relief over 2004-2008.

- **Accelerated Reduction in the Marriage Penalty:** The standard deduction for married couples is increased to double the amount for single taxpayers in 2003. The width of the 15 percent tax bracket for married couples is increased to twice the width for single taxpayers in 2003. Under current law, these provisions were scheduled to phase in over the period between 2005 and 2009. These reductions benefit married couples who claim the standard deduction or who have taxable income greater than $47,450. This proposal provides $54.8 billion in tax relief over 2004-2008.

- **Accelerated Increase in the Child Tax Credit:** The amount of the child tax credit is increased to $1,000 in 2003 (from $600). Under current law, the child tax credit was not scheduled to reach $1,000 until 2010. The increased amount of the child tax credit ($400) will be paid in advance beginning in July 2003 on the basis of the taxpayer's 2002 tax return filed in 2003. The balance of the child credit ($600) will be available when the taxpayer files his 2003 tax return in 2004. The advance payments will be made in a manner similar to the advance payment checks that were issued in 2001 to reflect the new 10 percent tax bracket. This proposal provides $41.4 billion in tax relief over 2004-2008, and $18.5 billion in direct spending.

- **Exclusion of Corporate Dividends from Taxable Income:** Dividends paid by corporations to individuals are excluded from taxable income when paid out of previously taxed corporate income beginning in 2003. This provision eliminates the double taxation of corporate dividends. Under the proposal, a corporation must calculate the amount of income that has been fully taxed at the corporate level (the so-called excludable dividend amount or EDA). This amount can then be distributed to shareholders without additional tax to the shareholder. To ensure that dividends and retained earnings are treated similarly, the President's plan also allows shareholders to increase the basis of their stock to reflect that the retained earnings have already been taxed at the corporate level. This increase in basis will not be taxable when the stock is sold. Retained earnings may be reflected in the value of stock of a corporation. When a shareholder sells that stock, that individual currently pays capital gains tax on the increase in value of stock. However, part of that increase in value may be attributable to retained earnings. By allowing an increase in the basis of stock in the amount of previously taxed retained earnings, the President's proposal ensures that dividends are taxed only once regardless of whether they are distributed to shareholders or retained.

This provision provides $140.2 billion in tax relief over 2004-2008.

- **Increase in Small Business Expensing:** The amount of investment that may be immediately deducted by small businesses is increased from $25,000 to $75,000 in 2003. The amount of investment qualifying for this immediate deduction begins to phase out for small businesses with investments in excess of $325,000 (up from $200,000). Both the $75,000 amount and the $325,000 amount are indexed for inflation beginning in 2004. This provision provides $8.4 billion in tax relief over 2004-2008.

- **AMT Hold-Harmless Relief:** To ensure that the benefits from the acceleration of the tax reductions are not reduced by the alternative minimum tax (AMT), the AMT exemption amount is increased by $8,000 for married taxpayers and by $4,000 for single taxpayers in 2003 through 2005. This provision provides $25.8 billion in tax relief over 2004-2008.

The President is proposing a major new initiative to encourage Americans to save and to simplify the complicated rules governing employer-provided and individual savings vehicles. The entire **savings initiative** will increase revenues by $13.6 billion over the next five years.

- **Lifetime Savings Accounts (LSAs)** – Allow individuals, regardless of age or income, to contribute up to $7,500 per year to an LSA beginning in 2003. Contributions to an LSA are not tax-deductible, but earnings will accumulate tax-free. Individuals are permitted to withdraw funds from an LSA at *any* time for *any* purpose without penalty. Existing Archer Medical Savings Accounts, Coverdell Education Savings Accounts, and Qualified State Tuition Plans can be converted to an LSA, prior to January 1, 2004. Or, taxpayers may continue making contributions to their MSA, ESA or QSTP if they prefer.

- **Retirement Savings Accounts (RSAs) –** Allow individuals, regardless of age or income, to contribute up to $7,500 per year to an RSA (in addition to amounts contributed to an LSA). Contributions to an RSA are not tax-deductible, but earnings will accumulate tax-free and distributions made after age 58 (or death or disability) will be tax-free. RSAs will have rules similar to the current Roth-IRA. Existing Roth-IRAs will be unaffected by the President's proposal and will be renamed RSAs in 2003. Existing traditional IRAs and non-deductible IRAs may be converted to an RSA. Those funds not converted to an RSA could not accept any new contributions (other than rollover contributions) after 2003.

The RSA and LSA savings proposals will increase revenues by $14.8 billion over 2004-2008.

- **Employer Retirement Savings Accounts (ERSAs) –** Consolidate the various tax-preferred, employer-based defined contribution savings accounts into one account that can be offered by any employer beginning in 2004. 401(k), thrift, 403(b) and governmental 457 plans, as well as salary reduction simplified employee pensions (SARSEPs) and Simple IRAs, all have the same basic purpose, but these plans are governed by different rules and contribution limits. The President is proposing to simplify the pension system by consolidating all of these plans into one with one set of rules. ERSAs will follow the existing rules for 401(k) plans, but these rules will be greatly simplified. Employees will be permitted to contribute up to $13,000 per year in pre-tax dollars to an ERSA beginning in 2004 (increasing to $15,000 in 2006). In addition, employees aged 50 or older would be permitted to make an additional "catch-up" contribution of $2,000 per year (increasing to $5,000 in 2006). The total maximum contribution to an ERSA (including employer contributions) is $40,000 per year. Beginning in 2004, 401(k) plans will become ERSAs. The other plans may continue to exist indefinitely, but may not accept future contributions after 2004. This proposal will provide $1.3 billion in tax relief over 2004-2008.

The President proposes $9.4 billion of tax relief over the next five years to **provide incentives for charitable giving**.

- **Charitable deduction for nonitemizers** – Allow nonitemizers to deduct charitable contributions in addition to claiming the standard deduction. Single taxpayers could deduct contributions above $250 per individual ($500 per couple) beginning in 2003. The maximum amount of the deduction is $250 per individual ($500 per couple). This proposal provides $5.9 billion in tax relief over 2004-2008.

- **Tax-free withdrawals from IRAs for charitable contributions** - Allow individuals over 65 to exclude from gross income IRA distributions made to a charitable organization. This proposal provides $1.9 billion in tax relief over 2004-2008.

- **Reform excise taxes on private foundations' investment income** - Replace the two rates of tax on the net investment income of private foundations that are exempt from federal income tax with a single tax rate of 1 percent. The proposal also reduces and simplifies the excise tax on net investment income of private foundations that are not exempt from federal income tax. This proposal provides $1.0 billion in tax relief over 2004-2008.

- Five other proposals provide $524 million in tax relief over 2004-2008, including **raising the cap on corporate charitable contributions** and **expanding the deduction for contributions of food inventory**.

The President proposes $1.2 billion in tax relief (and $3.2 billion in related outlays) over the next five years to **strengthen and reform education**.

- **Refundable tax credit for costs of attending a different school** - Provide a refundable tax credit of 50 percent of the first $5,000 of elementary and secondary education expenses of attending a different school for pupils assigned to failing public schools, effective beginning with the 2003-04 school year, through the 2007-2008 school year. This proposal provides $168 million in tax relief over 2004-2008, and provides $3.2 billion in direct payments.

- **Allow teachers to deduct out-of-pocket classroom expenses** - Allows teachers to treat up to $400 in qualified expenses as an above-the-line deduction. This proposal provides $1.0 billion in tax relief over 2004-2008.

The President proposes $17.0 billion in tax relief (and $30.8 billion in related outlays) over the next five years to **invest in health care**.

- **Refundable tax credit for the purchase of health insurance** - Provide a refundable credit for the cost of health insurance for individuals under 65 who are not covered by an employer plan or a public program. The maximum subsidy would be 90 percent for low-income individuals and would phase down with income, with a maximum amount of $1,000 for adults and $500 for children. The total maximum credit amount is $3,000 per family. The credit would be phased out between $25,000 and $40,000 of income for singles and between $25,000 and $60,000 for families purchasing a family policy. The credit could be claimed as part of the regular tax filing process or could be claimed in advance (as the EIC can be currently) beginning after December 31, 2003. This proposal provides $3.2 billion in tax relief over 2004-2008, and provides $30.8 billion in direct payments.

- **Deduction for long-term care expenses** – Provide an above-the-line deduction for long-term care insurance premiums. The deduction would be available to taxpayers who individually purchase long-term care insurance and to those who pay at least 50 percent of the cost of employer-provided coverage. The deduction would be phased in between 2004 and 2007. This proposal provides $6.6 billion in tax relief over 2004-2008.

- **Health flexible spending arrangements** - Allow up to $500 per year in unused benefits to be carried forward to the next year. Another proposal allows the carried forward benefits to be distributed to the taxpayer in the form of taxable income, contributed to an Archer Medical Savings Account (MSA), or contributed to a retirement plan. These proposals provide $3.3 billion in tax relief over 2004-2008.

- The President also proposes to provide an **additional personal exemption to home caretakers of family members**, and to **permanently extend and reform Archer MSAs**.

The President proposes to provide $249 million in tax relief over five years to **encourage Americans to telecommute** by excluding from income the value of employer-provided computers, software and peripherals.

The President proposes to provide a **tax credit for developers of affordable single-family housing**. Beginning in 2004, the first-year tax credit authority of $1.75 per capita (indexed for inflation) would be made available to each state. State housing agencies would award first-year credits to single-family housing units comprising a project located in a census tract with median income equal to 80 percent or less of area median income. The developer owning the housing unit immediately prior to the sale to a qualified buyer could claim the credit over a 5-year period beginning the date of sale. Eligible homebuyers would be required to have incomes equal to 80 percent or less of area median income. This proposal provides $2.5 billion in tax relief over 2004-2008.

The President proposes to encourage saving through **Individual Development Accounts** (IDA).

Low and moderate income citizens and legal residents between the ages of 18 and 60 who cannot be claimed as a dependent on another taxpayer's return and are not students could contribute to an IDA. Entities such as banks that set up IDAs would match the first $500 contributed by an individual each year. Matching entities would be allowed a 100 percent tax credit for the matching contribution and an additional $50 credit for each IDA maintained at the end of a taxable year with a balance of at least $100. This proposal provides $1.0 billion in tax relief over 2004-2008.

The President proposes $1.4 billion in tax relief over five years to **protect the environment**.

- **Permanently extend expensing of brownfields remediation costs** - This provision is scheduled to expire after December 31, 2003 under current law. A permanent extension provides $1.2 billion in tax relief over 2004-2008.

- **Gains from sale of property for conservation purposes** - When land is sold for conservation purposes, only 50 percent of any gain would be included in the seller's income. The sale may be either to a government agency or to a conservation organization. The taxpayer or a member of the taxpayer's family must have owned the property for the three years immediately preceding the sale. This proposal provides $209 million in tax relief over 2004-2008.

The President proposes $5.2 billion in tax relief over five years to **increase energy production and promote energy conservation**.

- **Tax credit for producing electricity from certain sources** - Extend the credit for electricity produced from wind, biomass, and poultry waste to facilities placed in service before January 1, 2006 (current law is January 1, 2004). Eligible biomass sources would be expanded to include certain biomass from forest-related resources, agricultural sources, and other sources. This proposal provides $1.0 billion in tax relief over 2004-2008.

- **Tax credit for purchase of certain hybrid and fuel cell vehicles** - A credit of up to $4,000 for the purchase of hybrid vehicles before January 1, 2008, and a credit of up to $8,000 for the purchase of a fuel cell vehicles before January 1, 2008. This proposal provides $2.4 billion in tax relief over 2004-2008.

- **Tax credit for energy produced from landfill gas** - To qualify for the current law credit, the gas must be produced from a facility placed in service after December 31, 2002 and before January 1, 2011. This proposal provides $392 million of tax relief over 2004-2008.

- **Tax credit for combined heat and power (CHP) property** - A 10 percent investment credit for qualified CHP systems with an electrical capacity in excess of 50 kilowatts or a capacity to produce mechanical power in excess of 67 horsepower, or an equivalent combination. This proposal provides $292 million of tax relief over 2004-2008.

- The President also proposes a **tax credit for residential solar energy systems**, an **extension**

**of the ethanol income tax credit and excise tax exemption**, and to modify the **tax treatment of nuclear decommissioning funds**.

The President proposes $316 million in tax relief related to **trade promotion**. He proposes to **implement free trade agreements with Chile and Singapore.**

The President proposes to extend provisions that expire in 2003 for 2 years. The combination of these extensions provides $23.9 billion in tax relief over five years:

- **Work opportunity tax credit**
- **Welfare-to-work tax credit**
- **Minimum tax relief for individuals**
- **District of Columbia Enterprise Zone and First-Time Homebuyer Credit**
- **Authority to issue Qualified Zone Academy Bonds**
- **Deduction for corporate donations of computer technology**
- **Waiver of the alternative minimum tax limitation on net operating loss use**
- **IRS user fees**
- **Provisions permitting disclosure of tax return information relating to terrorist activity**
- **Abandoned mine reclamation fees**

The President proposes to **permanently extend the research and experimentation tax credit**, which is scheduled to expire June 30, 2004 under current law. This proposal provides $22.9 billion in tax relief over 2004-2008. The President also proposes to **permanently extend and expand the disclosure of tax return information for administration of student loans.**

The President proposes to **repeal Section 809**, which reduces the deduction for policyholder dividends paid by mutual life insurance companies, beginning in 2004. This proposal will provide $385 million in tax relief over 2004-2008.

The President proposes to **permanently extend the provisions of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA)** which expire in 2010. These provisions include the marginal individual income tax rate reductions, the increase in the child tax credit, marriage penalty relief, education incentives, the repeal of estate and gift taxes, modifications of IRAs and pension plans, and other incentives for families and children. Since these proposals are in current law through 2010, most of the revenue effect of their extension occurs in years 2011, 2012 and 2013.

However, the proposed extension has incentive effects on the education provisions and on the estate and gift tax provisions which result in tax relief of $5.8 billion over the period 2004-2008.

The President proposes to **reform unemployment insurance administrative financing**. He proposes to eliminate the Federal Unemployment Tax (FUTA) surtax of 0.2 percent in 2005 (currently set to expire in 2007). The President also proposes to make additional rate cuts to achieve a net FUTA tax rate of 0.2 percent in 2009. The proposal will transfer administrative financing to states in 2006 and allow them to use their benefit taxes to pay these costs. Federal administrative grants to states will be significantly reduced. The President supports special distributions of $2.7 billion in Reed Act funds on October 1, 2006 and October 1, 2007, to be used for administrative expenses in the transition. (See additional description of this provision in the function 600 section.) This proposal will provide $7.9 billion in tax relief over 2004-2008.

The President proposes a number of measures to **improve tax administration** by the Internal Revenue Service, including **permitting private collection agencies to support IRS collection efforts**, and authorizing the Treasury Secretary to issue rules governing **inappropriate non-qualified deferred compensation arrangements**.

The President proposes to **combat abusive tax avoidance transactions** by providing a consistent definition of transactions that must be disclosed by taxpayers and registered promoters to the IRS. The proposal will strengthen the IRS' enforcement powers with respect to potentially abusive transactions. The President also proposes to **revise Section 163(j)** to tighten the limitation on the deductibility of interest made to related parties.

The President proposes $331 million in tax relief over five years to **simplify the tax laws** by establishing a **uniform definition of a qualifying child** and **eliminating the income phase-outs of the adoption tax credit and exclusion**.

Finally, the 2004 budget contains a discussion of the U.S. response to the World Trade Organization (WTO) decisions related to **Foreign Sales Corporation/Extraterritorial Income** (FSC/ETI) provisions of the tax code. The Administration intends to work closely with Congress to develop and enact the reforms needed to bring the U.S. into compliance with our WTO obligations and to rationalize our international tax rules (for example, the Subpart F rules, expense allocation rules and the foreign tax credit rules) to make U.S. companies more internationally competitive.

## BUSH 2004 BUDGET TAX PROPOSALS
($ Billions)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2004-08 |
|---|---|---|---|---|---|---|---|
| **Tax Relief Categories:** | | | | | | | |
| **Economic Growth Package** | | | | | | | |
| Accelerate 10% bracket expansion | -1.0 | -7.8 | -6.1 | -6.1 | -6.5 | -4.3 | -30.8 |
| Accelerate rate reductions | -5.8 | -35.7 | -17.5 | -4.9 | – | – | -58.1 |
| Accelerate marriage penalty relief | -2.8 | -27.1 | -14.7 | -7.7 | -3.6 | -1.7 | -54.8 |
| Accelerate increase in child credit | -13.5 | -5.1 | -10.7 | -8.5 | -8.5 | -8.5 | -41.4 |
| 100% dividend exclusion | -3.8 | -24.9 | -22.1 | -28.2 | -31.1 | -34.0 | -140.2 |
| Increase sec. 179 expensing | -1.0 | -1.7 | -1.8 | -1.9 | -1.6 | -1.4 | -8.4 |
| AMT hold-harmless | -3.1 | -8.5 | -10.4 | -6.9 | -- | -- | -25.8 |
| **Total economic growth package 1/** | **-31.1** | **-110.7** | **-83.2** | **-64.3** | **-51.3** | **-49.9** | **-359.5** |
| **Make EGTRRA Provisions Permanent 2/** | **--** | **-0.3** | **-0.8** | **-1.3** | **-1.6** | **-1.8** | **-5.8** |
| Incentives for Charitable Giving | -0.3 | -2.1 | -1.7 | -1.8 | -1.9 | -1.9 | -9.4 |
| Strengthen and Reform Education 3/ | -- | -* | -0.3 | -0.3 | -0.3 | -0.3 | -1.2 |
| Invest in Health Care 4/ | -- | -0.9 | -3.4 | -3.5 | -4.1 | -5.1 | -17.0 |
| Encourage Telecommuting | -- | -* | -0.1 | -0.1 | -0.1 | -0.1 | -0.2 |
| Tax Credit for Affordable Housing | -- | -* | -0.1 | -0.3 | -0.8 | -1.3 | -2.5 |
| Individual Development Accounts | -- | -- | -0.1 | -0.3 | -0.3 | -0.3 | -1.0 |
| Protect the Environment | -- | -0.2 | -0.3 | -0.3 | -0.3 | -0.3 | -1.4 |
| Energy Production and Conservation | -0.2 | -0.8 | -1.0 | -1.1 | -1.3 | -1.1 | -5.2 |
| Promote Trade | -- | -* | -0.1 | -0.1 | -0.1 | -0.1 | -0.3 |
| Improve Tax Administration | | -0.3 | 0.5 | 0.5 | 0.5 | 0.6 | 2.4 |
| Reform UI Administrative Financing | -- | -- | -1.1 | -1.4 | -3.4 | -2.0 | -7.9 |
| Expand Tax-free Savings Opportunities | 1.4 | 10.6 | 4.8 | 1.9 | -0.6 | -1.8 | 14.8 |
| Simplify Other Tax Laws | -* | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -1.6 |
| Deposit full gasohol tax in HWTF | -- | -- | -- | 0.6 | 0.6 | 0.6 | 1.7 |
| Temporarily Extend Expiring Provisions 5/ | -0.6 | -3.4 | -9.6 | -11.9 | 0.5 | 0.5 | -23.9 |
| Suspension of disallowance of certain deductions of mutual life insurance companies | -- | -0.1 | -0.1 | -0.1 | -* | -* | -0.4 |
| Permanently Extend R&E Tax Credit | -- | -1.0 | -3.3 | -5.2 | -6.3 | -7.1 | -22.9 |
| **Total Revenue Proposals** | **-30.8** | **-109.1** | **-100.2** | **-89.2** | **-71.0** | **-71.7** | **-441.3** |

*Less than $50 million
1/ Does not include outlay effect of $20.5 billion over the period 2004-2008.
2/ Most of the revenue impact of extending these provisions occurs in years 2011, 2012, 2013.
3/ Does not include outlay effect of $3.2 billion over the period 2004-2008.
4/ Does not include outlay effect of $30.8 billion over the period 2004-2008.
5/ Includes the combined work opportunity/welfare-to-work tax credit, minimum tax relief for individuals, DC enterprise zone and first-time homebuyer credit, authority to issue Qualified Zone Academy Bonds, deduction for corporate donations of computer technology, net operating loss offset of 100 percent of AMTI, IRS user fees and abandoned mine reclamation fees.

Details may not add to totals due to rounding.

# BUDGET PROCESS AND RELATED ISSUES

## In general

On September 30, 2002 most of the statutory budget enforcement rules that had been in effect since the early 1990's expired. In addition the 60-vote supermajority discipline used in the Senate to enforce congressional budget resolutions also expired. The Senate extended its supermajority discipline temporarily (through April 15, 2003) in S. Res. 304 (107th Congress).

The President's budget proposes to put into place **statutory discretionary spending limits for 2 years: 2004 and 2005 and to extend PAYGO enforcement for that same time period**. The budget provides a general outline for extension of these enforcement mechanisms and the creation of new mechanisms. The President hopes to work closely with Congress to fill in the details of these proposals.

The President's budget also includes a number of specific budget process changes: (1) a joint budget resolution, (2) biennial budgeting and appropriations, (3) a line-item veto, and (4) a government shutdown prevention mechanism (an automatic continuing resolution). All of these items have been proposed by the President in previous budgets.

## Specific budget process proposals

### Discretionary spending limits

The President's budget proposes to reinstate for 2 years the **discretionary spending limit** regime which expired in 2002. The proposal also includes **5 cap adjustments** for: (1) the Nuclear Waste Repository at Yucca Mountain (2) Social Security Program Integrity Activities, (3) EITC compliance, (4) emergency spending and (5) authorization of federal retirement accruals. The limits (including adjustments for Yucca, Social Security and EITC ) for **2004 would be $782.2 billion** in budget authority and **$818.8 billion** in outlays and for **2005 would be $813.5 billion** in budget authority **and $850.0 billion** in outlays.

The President's budget again endorses Congress' approach to **limiting total advance appropriations** – at the level of the 2002 congressional budget resolution ($23.159 billion) – with an exception for those items that should be reduced or eliminated for programmatic reasons.

Although the President's budget retains the **adjustment for emergency spending** and intends that, in general, it operate as it did prior to the expiration of the caps, the President also proposes to codify the definition of emergency spending. The definition would include the following elements:

*necessary expenditure* – an essential or vital expenditure, not one that is merely useful or beneficial;

*sudden* – quickly coming into being, not building up over time;

*urgent* – pressing and compelling, requiring immediate action;

*unforseen* – not predictable or seen beforehand as a coming need (an emergency that is part of an aggregate level of anticipated emergencies, particularly when normally estimated in advance would not be "unforseen"); and

*not permanent* – the need is temporary in nature.

The President also proposes that the emergency designation apply to individual spending or tax items so as to prevent so-called "bundling" of emergency with non-emergency provisions.

The President's budget again includes a proposal to more accurately reflect the **cost of federal employee retirement**. The budget proposes a technical, "good government" reform that – while it would have no net effect on the bottom line surplus or deficit of the federal budget – is intended to appropriately reflect the government's full share of the cost of retirement benefits (health insurance and pensions) for federal employees within the agencies where current employees, who are future retirees, work.

This proposal was included in the totals in 2003 President's budget and was to have been accounted for by some sort of a reserve. In this budget the President has not included the amounts in his request, but rather has displayed the data as non-add memo entries. The President proposes that there be an adjustment of $11.1 billion in budget authority and $11.3 in outlays to the discretionary spending limits for both 2004 and 2005 once the accrual proposal has been enacted into law.

PAYGO

The President's budget also proposes to **reinstate the PAYGO** enforcement regime that, in effect, came to an end in 2002. Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 directed OMB to score the PAYGO costs through 2006 of all mandatory spending and revenue legislation enacted prior to September 30, 2002. Thus, although no new legislation would be added to the scorecard after September 30, 2002, there remained the possibility of sequestration thereafter with respect to these preexisting balances. However in November of 2002, prior to the adjournment of the 107th Congress, Congress passed HR 5708 (which the President signed into law on December 2, 2002), which set all remaining PAYGO balances to zero. This Act resulted in the defacto expiration of the section 252 PAYGO regime.

The President proposes to **extend the PAYGO mechanism for 2004 and 2005 with the 5-year cost of legislation enacted during this period to be placed on the scorecard.**

The President also proposes that the list of accounts potentially subject to sequestration under both PAYGO and the discretionary spending limits be reviewed to take into account technical issues and new programs that have been enacted since 1997 (the last time the sequestration mechanisms were reviewed and extended).

The Baseline

The President's budget includes 3 proposals for changes to section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 which provides the statutory direction to both the Congressional Budget Office and the Office of Management and Budget regarding the preparation of the baseline.

The first baseline proposal is to correct for the overcompensation of baseline budgetary resources for **pay raise-related costs** due to the requirement to annualize pay raises. This could effect both mandatory and discretionary accounts. The second proposal is to repeal 2 paragraphs of section 257 ((c)(2) and (3)) which set out two exceptions to the baseline for discretionary spending: an exception for **expiring housing contracts** and for **social insurance administrative expenses**. The final baseline proposal is to add a new provision to preclude extending **discretionary funding for emergencies** in subsequent years.

## Additional budget process proposals

Once again the President's budget calls for the following budget process reforms:

The President's budget includes a proposal for a **joint budget resolution** to give the budget the force of law. This is envisioned to be a simple measure which includes overall levels for discretionary spending, mandatory spending, receipts, and debt. These levels would be enforced by a sequester mechanism.

The President's budget also calls for the adoption of **biennial budgeting and appropriations** in order to increase the opportunity for review of the ever growing portion of the budget which is governed by entitlement laws.

The President's budget calls upon Congress to fix the constitutional flaw which the Supreme Court identified in the **Line Item Veto** Act – although the budget provides no substantive guidance for doing so. The President proposes that he be given the authority to decline to spend new appropriations, decline to approve new mandatory spending or to decline to grant new limited tax benefits whenever the President determines the spending or benefits are not necessary. Any savings would be devoted to deficit reduction.

The President's budget proposes the adoption of what is often referred to in Congress as the **"automatic CR"**. Under this proposal, if appropriations legislation is not enacted prior to October

1st, then funding for programs would continue to be provided at the level of the request in the President's budget or the prior year's level – whichever is lower.

Status of Budget Enforcement in the Senate - February 2003

*Existing authority:*

**There is no FY 2003 budget resolution to enforce.** Consequently any enforcement is based on the FY 2002 resolution (the underlying assumptions of which are nearly two years old). Section 251 of the Balanced Budget and Emergency Deficit Control Act (BBEDCA) which set out the discretionary spending limits expired on September 30, 2002. Section 252 of BBEDCA (pay-as-you-go) has not expired per se. Nonetheless, as discussed above, OMB is no longer required to score any new legislation to the pay-go scorecard and the pay-go balances for all subsequent years have been eliminated.

The requirement that certain Budget Act points of order would require 60 votes for a successful waiver or appeal expired on September 30, 2002. The Senate's own pay-go point of order expired, in its entirety, on the same date.

**S. Res. 304 (107th Cong.)** temporarily extended the 60 vote requirement with respect to Budget Act points of order through April 15th, 2003. It also extended the pay-go point of order through that same date, set the Senate scorecard to zero, and made pay-go applicable to entitlement expansions and tax cuts contained in appropriations bills.

*Current situation:*

In general, the conference report accompanying **the omnibus appropriations bill for 2003 (H. J. Res. 2)** will NOT subject to any Budget Act points of order with respect to the level of discretionary spending set out therein. This is a result of both the expiration of section 251 and the fact that there is no FY 2003 budget resolution setting out a section 302(a) allocation to the Committee on Appropriations. However, the conference report may be subject – at least through April 15th of this year – to the Senate's pay-go point of order if it contains increases in direct spending or reductions in revenues. This resulted from an amendment to the pay-go rule made in S. Res. 304. If the conference report contains so-called "directed scorekeeping" language in hopes of avoiding a pay-go point of order or for any other purpose, the conference report will be subject to a 60-vote point of order pursuant to section 306 of the Congressional Budget Act.

All **authorizing legislation** containing increases in direct spending or reductions in revenues is potentially subject to Budget Act points of order under **section 302** for exceeding a committee's allocation. Until the adoption of a 2004 budget resolution, the relevant enforcement periods would be: the sum of 2002-2006 and 2002-2011 with respect to section 302. A waiver of section 302 requires 60 votes, but only through April 15th. After April 15th, a point of order would still be available – but a waiver would only require a simple-majority vote.

**Authorizing legislation** is also subject to the **Senate's pay-go point of order**. Again, until adoption of a 2004 budget resolution, with respect to pay-go, the relevant enforcement periods are the sum of 2002-2006 and 2007-2011. The pay- go point of order expires in its entirety on April 15th - not just the 60 vote requirement.

*Looking forward:*

The 60 vote requirement for Budget Act waivers and appeals can be extended temporarily or permanently in one of three ways: (1) another simple S. Res., (2) in the 2004 budget resolution, or (3) by amending the Congressional Budget Act. The Senate's pay-go point of order can also be extended (and amended) in a simple S. Res. or in the 2004 budget resolution.

New, Senate-only enforcement could be put in to place in either a simple S. Res. or in the 2004 budget resolution.

Establishing limits on discretionary spending can be done in a budget resolution by virtue of the committee allocation process. To reestablish statutory limits and sequestration discipline will require a change in law. Reestablishing PAYGO sequestration will also require a change in law.

# APPENDIX
**Summary Tables**

**Table 1:**
**SUMMARY BY FUNCTION OF THE PRESIDENT'S 2004 BUDGET**

**Table 2:**
**SUMMARY BY FUNCTION OF THE PRESIDENT'S 2004 DISCRETIONARY BUDGET**

**Table 3:**
**TAX REVENUES BY SOURCE IN THE PRESIDENT'S 2004 BUDGET**

**Table 4:**
**PRESIDENT'S BUDGET BASELINE VS. CBO BASELINE**

**SELECTED HISTORICAL TABLES FROM OMB**
**(Pgs. 21 - 24, 29, 30, 33, 34, 116, 117, 123 & 126)**

## TABLE 1: SUMMARY BY FUNCTION OF THE PRESIDENT'S FY 2004 BUDGET
### ($ Billions)

| Function | | 2002 Actual | 2003 '03 Request | 2004 | 2005 | 2006 | 2007 | 2008 | 2003-2004 % change |
|---|---|---|---|---|---|---|---|---|---|
| 050: Defense | BA | 362.1 | 382.7 | 399.7 | 420.0 | 440.0 | 460.3 | 480.7 | 4.4% |
| | OT | 348.6 | 376.3 | 390.4 | 410.1 | 423.2 | 436.4 | 460.5 | 3.8% |
| 150: International Affairs | BA | 25.1 | 20.5 | 23.8 | 28.0 | 30.6 | 32.1 | 33.3 | 16.0% |
| | OT | 22.4 | 20.7 | 25.6 | 26.1 | 27.5 | 29.2 | 30.7 | 23.6% |
| 250: Science & Technology | BA | 22.0 | 22.4 | 23.5 | 24.3 | 25.1 | 26.0 | 26.7 | 5.1% |
| | OT | 20.8 | 21.7 | 22.9 | 23.8 | 24.7 | 25.4 | 26.2 | 5.3% |
| 270: Energy | BA | 0.4 | 0.7 | 0.9 | 1.7 | 1.8 | 1.3 | 2.2 | 31.4% |
| | OT | 0.5 | 0.7 | 0.9 | 1.5 | 1.8 | 1.2 | 1.8 | 29.7% |
| 300: Natural Resources | BA | 31.1 | 29.4 | 30.4 | 31.4 | 32.1 | 32.8 | 33.5 | 3.6% |
| | OT | 29.5 | 30.6 | 31.6 | 31.8 | 32.5 | 32.8 | 33.5 | 3.3% |
| 350: Agriculture | BA | 23.8 | 20.1 | 21.1 | 24.3 | 23.9 | 23.0 | 21.5 | 5.4% |
| | OT | 22.2 | 20.8 | 20.8 | 24.2 | 23.9 | 23.1 | 21.5 | -0.2% |
| 370: Commerce & Housing | BA | 11.3 | 8.5 | 9.6 | 9.5 | 9.6 | 11.6 | 11.3 | 12.1% |
| | OT | -0.4 | 1.3 | -0.7 | -2.0 | 0.2 | 1.6 | 1.4 | -155.5% |
| 400: Transportation | BA | 68.9 | 63.6 | 63.8 | 65.1 | 66.8 | 68.4 | 70.0 | 0.4% |
| | OT | 61.9 | 64.2 | 63.4 | 64.3 | 65.1 | 66.8 | 68.9 | -1.2% |
| 450: Community Development | BA | 23.1 | 15.4 | 13.6 | 13.9 | 14.2 | 14.5 | 14.9 | -11.5% |
| | OT | 13.0 | 18.5 | 17.1 | 16.4 | 14.2 | 14.2 | 14.6 | -7.6% |
| 500: Education & Training | BA | 79.9 | 88.5 | 86.0 | 86.1 | 87.5 | 89.3 | 91.5 | -2.8% |
| | OT | 70.5 | 86.3 | 85.3 | 84.5 | 85.9 | 87.5 | 89.4 | -1.1% |
| 550: Health | BA | 206.1 | 228.6 | 247.3 | 267.9 | 292.0 | 313.2 | 336.2 | 8.2% |
| | OT | 196.5 | 223.1 | 246.6 | 267.0 | 291.2 | 311.7 | 334.7 | 10.5% |
| 570: Medicare | BA | 234.4 | 245.0 | 258.6 | 275.9 | 305.3 | 327.2 | 349.4 | 5.6% |
| | OT | 230.9 | 244.7 | 258.9 | 275.9 | 304.9 | 327.4 | 349.4 | 5.8% |

## TABLE 1: SUMMARY BY FUNCTION OF THE PRESIDENT'S FY 2004 BUDGET
### ($ Billions)

| Function | | 2002 Actual | 2003 '03 Request | 2004 | 2005 | 2006 | 2007 | 2008 | 2003-2004 % change |
|---|---|---|---|---|---|---|---|---|---|
| 600: Income Security | BA | 309.7 | 326.5 | 322.9 | 337.7 | 346.2 | 354.0 | 369.9 | -1.1% |
| | OT | 312.5 | 330.1 | 325.0 | 340.9 | 349.4 | 356.7 | 369.1 | -1.6% |
| 650: Social Security | BA | 462.4 | 479.9 | 498.8 | 517.5 | 539.7 | 565.9 | 594.6 | 3.9% |
| | OT | 456.4 | 478.5 | 497.3 | 516.0 | 537.6 | 563.2 | 591.8 | 3.9% |
| 700: Veterans Benefits | BA | 52.1 | 57.7 | 61.6 | 64.8 | 66.9 | 69.0 | 71.3 | 6.6% |
| | OT | 51.0 | 57.1 | 62.0 | 67.0 | 66.6 | 65.9 | 70.9 | 8.7% |
| 750: Administration of Justice | BA | 36.2 | 36.0 | 38.8 | 37.0 | 37.7 | 38.5 | 39.4 | 7.7% |
| | OT | 34.3 | 36.1 | 39.4 | 38.9 | 39.5 | 37.9 | 38.7 | 9.1% |
| 800: General Government | BA | 18.4 | 18.3 | 20.2 | 22.1 | 20.7 | 21.2 | 21.6 | 10.4% |
| | OT | 17.4 | 19.0 | 20.5 | 22.0 | 20.5 | 21.0 | 21.5 | 7.9% |
| 900: Net Interest | BA | 170.9 | 161.4 | 176.4 | 204.0 | 224.5 | 239.8 | 254.1 | 9.3% |
| | OT | 171.0 | 161.4 | 176.4 | 204.0 | 224.5 | 239.8 | 254.1 | 9.3% |
| 920: Allowances | BA | 0.0 | 2.4 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -112.0% |
| | OT | 0.0 | -0.4 | -0.3 | -1.3 | -1.1 | 0.2 | 0.3 | -19.3% |
| 950: Undistributed Offsetting | BA | -47.8 | -50.3 | -53.7 | -67.6 | -68.3 | -66.0 | -68.5 | 6.7% |
| Receipts | OT | -47.8 | -50.3 | -53.7 | -67.6 | -68.3 | -66.0 | -68.5 | 6.7% |
| Total | BA | 2090.1 | 2157.2 | 2243.0 | 2363.3 | 2496.2 | 2621.6 | 2753.3 | 4.0% |
| | OT | 2011.0 | 2140.4 | 2229.4 | 2343.4 | 2463.7 | 2576.2 | 2710.5 | 4.2% |
| On-budget | BA | 1724.7 | 1780.6 | 1856.1 | 1967.1 | 2088.5 | 2200.0 | 2318.5 | 4.2% |
| | OT | 1655.3 | 1772.3 | 1847.9 | 1953.1 | 2060.1 | 2159.7 | 2280.4 | 4.3% |
| Off-budget | BA | 365.3 | 376.6 | 387.0 | 396.3 | 407.7 | 421.6 | 434.8 | 2.7% |
| | OT | 355.7 | 368.1 | 381.5 | 390.3 | 403.6 | 416.5 | 430.1 | 3.6% |
| Revenues | | 1853.2 | 1836.2 | 1922.0 | 2135.2 | 2263.2 | 2398.1 | 2520.9 | 4.7% |
| On-budget | | 1337.9 | 1304.7 | 1365.9 | 1545.7 | 1648.4 | 1753.6 | 1847.7 | 4.7% |
| Off-budget | | 515.3 | 531.6 | 556.2 | 589.5 | 614.8 | 644.4 | 673.2 | 4.6% |
| Surplus | | -157.8 | -304.2 | -307.4 | -208.2 | -200.5 | -178.1 | -189.6 | |
| On-budget | | -317.5 | -467.6 | -482.1 | -407.4 | -411.7 | -406.1 | -432.7 | |
| Off-budget | | 159.7 | 163.5 | 174.7 | 199.2 | 211.2 | 227.9 | 243.1 | |

## TABLE 2: SUMMARY BY FUNCTION OF THE PRESIDENT'S FY 2004 DISCRETIONARY BUDGET

**($ Billions)**

| Function | | 2002 Actual | 2003 '03 Request | 2004 | 2005 | 2006 | 2007 | 2008 | 2003-2004 % change |
|---|---|---|---|---|---|---|---|---|---|
| 600: Income Security | BA | 42.7 | 44.9 | 46.2 | 47.1 | 48.0 | 48.2 | 48.5 | 2.8% |
| | OT | 48.0 | 50.0 | 51.2 | 53.0 | 54.3 | 54.4 | 53.7 | 2.5% |
| 650: Social Security | BA | 3.5 | 3.9 | 4.3 | 4.4 | 4.5 | 4.5 | 4.7 | 11.0% |
| | OT | 3.9 | 4.0 | 4.3 | 4.4 | 4.4 | 4.5 | 4.7 | 7.3% |
| 700: Veterans Benefits | BA | 24.0 | 25.5 | 28.2 | 28.6 | 29.1 | 29.5 | 30.1 | 10.6% |
| | OT | 24.1 | 25.2 | 27.9 | 28.5 | 28.9 | 29.4 | 30.0 | 10.9% |
| 750: Administration of Justice | BA | 34.7 | 32.4 | 34.1 | 36.3 | 37.2 | 38.0 | 39.1 | 5.3% |
| | OT | 33.2 | 33.0 | 35.6 | 38.2 | 39.1 | 37.9 | 38.8 | 8.1% |
| 800: General Government | BA | 15.6 | 16.3 | 17.8 | 18.2 | 18.0 | 18.4 | 18.8 | 8.8% |
| | OT | 14.6 | 16.8 | 17.9 | 18.1 | 17.9 | 18.2 | 18.6 | 6.0% |
| 900: Net Interest | BA | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| | OT | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| 920: Allowances | BA | 0.0 | 2.4 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | |
| | OT | 0.0 | -0.4 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | |
| 950: Undistributed Offsetting | BA | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Receipts | OT | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Total | BA | 734.7 | 751.8 | 782.2 | 813.5 | 842.3 | 872.4 | 903.6 | 4.0% |
| | OT | 734.4 | 791.4 | 818.8 | 850.0 | 869.8 | 891.4 | 925.9 | 3.5% |

NOTE: Discretionary budget authority in FY 2003 of $751.8 billion is adjusted for the Presidentially approved spending level. This level includes the House passed budget resolution level of $750.1 billion, adjusted for mass transit budget authority of $1.4 billion and almost $300 million in unused offsets in agriculture programs.

**TABLE 2: SUMMARY BY FUNCTION OF THE PRESIDENT'S FY 2004 DISCRETIONARY BUDGET**
**($ Billions)**

| Function | | 2002 Actual | 2003 '03 Request | 2004 | 2005 | 2006 | 2007 | 2008 | 2003-2004 % change |
|---|---|---|---|---|---|---|---|---|---|
| 050: Defense | BA | 360.8 | 382.2 | 399.2 | 419.6 | 439.7 | 460.0 | 480.4 | 4.4% |
| | OT | 348.9 | 375.7 | 389.7 | 409.7 | 422.8 | 436.2 | 460.2 | 3.7% |
| 150: International Affairs | BA | 25.2 | 25.7 | 28.6 | 30.0 | 31.5 | 32.8 | 33.8 | 11.3% |
| | OT | 26.2 | 27.6 | 28.1 | 28.3 | 29.8 | 31.3 | 32.6 | 1.7% |
| 250: Science & Technology | BA | 21.9 | 22.3 | 23.5 | 24.3 | 25.1 | 25.9 | 26.7 | 5.5% |
| | OT | 20.7 | 21.6 | 22.7 | 23.7 | 24.7 | 25.4 | 26.2 | 5.5% |
| 270: Energy | BA | 3.2 | 3.3 | 3.6 | 4.0 | 3.9 | 3.9 | 4.9 | 6.7% |
| | OT | 3.0 | 3.4 | 3.6 | 3.8 | 4.0 | 3.9 | 4.6 | 6.1% |
| 300: Natural Resources | BA | 29.6 | 27.6 | 28.0 | 28.5 | 29.1 | 29.7 | 30.5 | 1.5% |
| | OT | 28.6 | 29.2 | 29.5 | 29.5 | 29.6 | 29.9 | 30.6 | 1.1% |
| 350: Agriculture | BA | 5.7 | 5.2 | 5.4 | 5.6 | 5.7 | 5.8 | 6.0 | 4.3% |
| | OT | 5.3 | 5.7 | 5.7 | 5.5 | 5.7 | 5.8 | 5.9 | -0.3% |
| 370: Commerce & Housing | BA | 0.6 | -0.9 | -1.0 | -0.6 | -0.5 | 0.7 | 0.9 | 10.0% |
| | OT | 1.0 | -0.6 | -0.7 | -0.6 | -0.6 | 0.6 | 0.8 | 19.5% |
| 400: Transportation | BA | 23.4 | 21.5 | 22.3 | 22.6 | 23.0 | 23.5 | 24.0 | 3.6% |
| | OT | 57.3 | 61.3 | 61.4 | 62.2 | 63.0 | 64.8 | 66.8 | 0.2% |
| 450: Community Development | BA | 22.8 | 15.1 | 13.9 | 14.2 | 14.5 | 14.8 | 15.3 | -7.8% |
| | OT | 14.2 | 18.4 | 17.5 | 16.8 | 14.8 | 14.8 | 15.2 | -5.0% |
| 500: Education & Training | BA | 71.3 | 72.3 | 75.2 | 76.6 | 78.2 | 80.0 | 82.0 | 4.1% |
| | OT | 62.7 | 72.6 | 72.8 | 75.5 | 77.0 | 78.7 | 80.5 | 0.3% |
| 550: Health | BA | 45.8 | 48.5 | 49.6 | 50.7 | 51.8 | 52.9 | 54.3 | 2.2% |
| | OT | 39.4 | 44.4 | 48.2 | 49.8 | 51.0 | 52.0 | 53.2 | 8.6% |
| 570: Medicare | BA | 3.8 | 3.7 | 3.7 | 3.8 | 3.9 | 4.0 | 4.1 | 2.1% |
| | OT | 3.2 | 3.7 | 3.7 | 3.8 | 3.8 | 3.9 | 4.0 | 0.7% |

# TABLE 3: TAX REVENUES BY SOURCE IN THE PRESIDENT'S 2004 BUDGET

($ billions)

| | 2002 Actual | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| Individual Income Taxes | 858.3 | 877.2 | 953.6 | 1,028.7 | 1,094.7 | 1,162.6 | 1,235.6 |
| Corporate Income Taxes | 148.0 | 145.8 | 173.7 | 233.2 | 240.1 | 244.6 | 252.0 |
| Social Insurance Taxes | 700.8 | 726.6 | 764.5 | 812.2 | 847.6 | 887.8 | 924.8 |
| (On-budget) | 185.4 | 195.0 | 208.4 | 222.7 | 232.8 | 243.3 | 251.6 |
| (Off-budget) | 515.3 | 531.6 | 556.2 | 589.5 | 614.8 | 644.4 | 673.2 |
| Excise Taxes | 67.0 | 68.4 | 71.2 | 73.5 | 75.1 | 77.2 | 79.4 |
| Estate and Gift Taxes | 26.5 | 20.2 | 23.9 | 22.0 | 24.6 | 22.2 | 22.5 |
| Customs Duties | 18.6 | 19.1 | 20.7 | 21.3 | 23.9 | 26.1 | 27.7 |
| Miscellaneous Receipts | 33.9 | 34.7 | 38.5 | 44.4 | 46.5 | 48.5 | 50.6 |
| Adjustment for uncertainty | -- | -25.0 | -15.0 | -- | -- | -- | -- |
| Total Receipts | 1853.2 | 1867.0 | 2031.1 | 2235.4 | 2352.4 | 2469.1 | 2592.6 |
| (On-budget) | 1,337.9 | 1,335.4 | 1,475.0 | 1,645.9 | 1,737.6 | 1,824.6 | 1,919.4 |
| (Off-budget) | 515.3 | 531.6 | 556.2 | 589.5 | 614.8 | 644.4 | 673.2 |

## TABLE 4: PRESIDENT'S BUDGET BASELINE VS. CBO BASELINE
## (in billions of dollars)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2004-2008 |
|---|---|---|---|---|---|---|---|
| **President's Budget Baseline**: | | | | | | | |
| Discretionary Outlays* | | | | | | | |
| Defense Outlays | 375 | 383 | 393 | 400 | 411 | 421 | 2008 |
| Nondefense Outlays | 410 | 412 | 420 | 424 | 432 | 441 | 2130 |
| Total Discretionary Outlays | 785 | 795 | 813 | 825 | 843 | 862 | 4138 |
| Mandatory Outlays | | | | | | | |
| Social Security Outlays | 474 | 493 | 512 | 533 | 559 | 587 | 2684 |
| Medicare Outlays | 228 | 241 | 249 | 262 | 268 | 285 | 1305 |
| Medicaid and SCHIP Outlays | 167 | 182 | 198 | 215 | 233 | 252 | 1079 |
| Other Outlays | 316 | 305 | 311 | 308 | 327 | 340 | 1591 |
| Total Mandatory Outlays | 1185 | 1221 | 1269 | 1318 | 1387 | 1465 | 6660 |
| Net Interest | 161 | 173 | 193 | 205 | 211 | 214 | 996 |
| Total Outlays | 2131 | 2189 | 2276 | 2348 | 2440 | 2541 | 11794 |
| Total Revenues | 1867 | 2031 | 2235 | 2352 | 2469 | 2593 | 11681 |
| Surplus | -264 | -158 | -40 | 5 | 29 | 51 | -114 |
| **CBO Baseline**: | | | | | | | |
| Discretionary Outlays* | | | | | | | |
| Defense Outlays | 377 | 389 | 400 | 406 | 414 | 428 | 2037 |
| Nondefense Outlays | 408 | 417 | 423 | 430 | 439 | 449 | 2158 |
| Total Discretionary Outlays | 785 | 806 | 822 | 836 | 853 | 877 | 4195 |
| Mandatory Outlays | | | | | | | |
| Social Security Outlays | 474 | 493 | 514 | 540 | 568 | 598 | 2714 |
| Medicare Outlays | 241 | 252 | 269 | 279 | 299 | 317 | 1416 |
| Medicaid and SCHIP Outlays | 162 | 172 | 184 | 199 | 217 | 236 | 1007 |
| Other Outlays | 296 | 300 | 303 | 308 | 313 | 324 | 1548 |
| Total Mandatory Outlays | 1172 | 1218 | 1270 | 1326 | 1396 | 1475 | 6684 |
| Net Interest | 157 | 165 | 193 | 210 | 214 | 213 | 995 |
| Total Outlays | 2114 | 2188 | 2285 | 2372 | 2463 | 2566 | 11874 |
| Total Revenues | 1922 | 2054 | 2225 | 2370 | 2505 | 2648 | 11802 |
| Surplus | -193 | -134 | -60 | -2 | 42 | 82 | -72 |
| **Difference CBO less President's Budget:** | | | | | | | |
| Discretionary Outlays | | | | | | | |
| Defense Outlays | 1 | 6 | 6 | 6 | 3 | 7 | 29 |
| Nondefense Outlays | -1 | 5 | 3 | 5 | 7 | 8 | 29 |
| Total Discretionary Outlays | -0 | 11 | 9 | 11 | 11 | 15 | 57 |
| Mandatory Outlays | | | | | | | |
| Social Security Outlays | -0 | 0 | 3 | 6 | 9 | 11 | 29 |
| Medicare Outlays | 13 | 11 | 20 | 17 | 31 | 32 | 110 |
| Medicaid and SCHIP Outlays | -6 | -10 | -14 | -16 | -16 | -16 | -72 |
| Other Outlays | -20 | -5 | -7 | 0 | -14 | -16 | -43 |
| Total Mandatory Outlays | -13 | -4 | 1 | 8 | 9 | 10 | 24 |
| Net Interest | -4 | -9 | -0 | 5 | 3 | -1 | -2 |
| Total Outlays | -17 | -1 | 9 | 24 | 23 | 24 | 80 |
| Total Revenues | 55 | 23 | -10 | 18 | 36 | 55 | 121 |
| Surplus | 72 | 24 | -20 | -7 | 13 | 31 | 42 |

Source: Senate Budget Committee Republican Staff

* Discretionary outlays reflect the effect of budget authority for 2003 that equals the level provided by the continuing resolution.

**HISTORICAL TABLES FROM OMB**
**(Pgs. 21 - 24, 29, 30, 33, 34, 116, 117, 123 & 126)**